

Polenergia Group

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30TH 2017
WITH THE AUDITOR'S REVIEW REPORT**

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Warsaw, August 10th 2017

Table of contents

1.	Interim condensed consolidated statement of financial position	5
2.	Interim condensed consolidated statement of profit or loss	7
3.	Interim condensed consolidated statement of changes in equity	8
4.	Interim condensed consolidated statement of cash flows	10
5.	General information	12
5.1.	Duration of the Company and other Group companies.....	12
5.2.	Periods covered by the consolidated financial statements	12
6.	Going concern.....	13
7.	The Group's organisational structure.....	13
8.	Authorisation of the financial statements	15
9.	Applied accounting policies	15
9.1.	Basis of accounting	20
9.2.	Significant accounting judgements	21
9.3.	Significant estimates.....	21
9.4.	Measurement currency and reporting currency of the consolidated financial statements	22
9.5.	Basis of consolidation.....	22
9.6.	Investments in associates	22
9.7.	Goodwill	23
9.8.	Intangible assets.....	23
9.9.	Property, plant and equipment	24
9.10.	Property, plant and equipment under construction	25
9.11.	Borrowing costs	25
9.12.	Impairment losses on non-financial non-current assets	25
9.13.	Financial assets	26
9.14.	Impairment of financial assets	27
9.15.	Hedge accounting.....	28
9.16.	Leases	28
9.17.	Inventories	29
9.18.	Current and non-current receivables.....	29
9.19.	Foreign currency transactions	29
9.20.	Cash and cash equivalents	30
9.21.	Accruals and deferrals	30
9.22.	Share capital.....	30
9.23.	Provisions	30

9.24.	Provisions for retirement gratuity and jubilee benefits	30
9.25.	Interest-bearing borrowings and other debt instruments.....	31
9.26.	Trade and other payables.....	31
9.27.	Recognition of revenue.....	31
9.27.1	Sale of merchandise and products	32
9.27.2	Certificates of origin	32
9.27.3	Recognition of compensation for stranded costs and cost of gas.....	32
9.27.4	Futures and forward contracts.....	32
9.27.5	Recognition of carbon emission allowances	33
9.27.6	Interest.....	33
9.27.7	Dividends	33
9.27.8	Grants	33
9.28.	Taxes	34
9.28.1	Current income tax	34
9.28.2	Deferred tax.....	34
9.28.3	Value added tax.....	35
9.29.	Earnings per share	35
9.30.	Contingent assets and liabilities	35
9.31.	Emission allowances	36
9.32.	Seasonality and cyclical nature of operations	36
10.	Adjusted EBITDA and adjusted net profit.....	36
11.	Operating segments	39
12.	Earnings per share	42
13.	Intangible assets.....	43
14.	Goodwill	44
15.	Property, plant and equipment	45
16.	Non-current receivables	47
17.	Non-current financial assets	47
18.	Inventories	47
19.	Short-term receivables	47
20.	Current prepayments and accrued income	48
21.	Current financial assets	48
22.	Cash and cash equivalents	50
23.	Share capital and statutory reserve funds/capital reserves	51
23.1	Share capital.....	51
23.2	Significant shareholders	52

23.3	Other capital reserves	53
23.4	Undistributed profit and limitations on dividend payment	53
23.5	Non-controlling interests	53
23.6	Dividends paid and proposed	53
24.	Income tax	53
25.	Provisions	54
26.	Liabilities under bank and other borrowings	55
27.	Liabilities	60
28.	Accruals and deferred income	61
29.	Contingent liabilities	61
29.1	Guarantees and sureties issued	61
29.2	Litigation	61
29.3	Tax settlements	63
29.4	Capital expenditure	63
29.5	Contractual obligations	63
30.	Revenue	65
31.	Expenses, by nature of expense	65
32.	Other income	65
33.	Other expenses	66
34.	Finance income	66
35.	Finance costs	67
36.	Cash flows	67
37.	Objectives and policies of financial risk management	68
38.	Financial instruments	71
39.	Hedging	72
40.	Capital management	73
41.	Significant related-party transactions	74
42.	Compensation for stranded costs and cost of gas	74
43.	Workforce	75
44.	Information on the total amount of remuneration and awards (in cash or in kind) paid or payable to members of the Management and Supervisory Boards of the parent	76
45.	Transactions with members of the Group's Management and Supervisory Boards, their spouses, siblings, ascendants, descendants, or other closely related persons	77
46.	Events after the reporting period	77

1. Interim condensed consolidated statement of financial position

As at June 30th 2017

ASSETS

	Note	Jun 30 2017	Dec 31 2016
I. Non-current assets		2,192,773	2,270,868
1. Property, plant and equipment	15	1,932,417	1,999,706
2. Intangible assets	13	34,774	39,468
3. Goodwill related to subordinated entities	14	184,613	184,625
4. Financial assets	17	11,327	12,324
5. Long-term receivables	16	4,690	4,840
6. Deferred tax asset		24,906	29,855
7. Prepayments and accrued income		46	50
II. Current assets		558,244	703,656
1. Inventories	18	27,910	41,484
2. Trade receivables	19	100,281	149,494
3. Current tax asset	19	1,641	6,079
4. Other short-term receivables	19	33,301	20,126
5. Prepayments and accrued income	20	11,671	6,068
6. Current financial assets	21	64,273	99,543
7. Cash and cash equivalents	22	319,167	380,862
Total assets		2,751,017	2,974,524

EQUITY AND LIABILITIES

	Note	Jun 30 2017	Dec 31 2016
I. Equity		1,269,357	1,267,426
Equity attributable to owners of the parent		1,268,454	1,266,524
1. Share capital	23	90,887	90,887
2. Share premium		680,777	765,810
3. Capital reserve from valuation of options		13,207	13,207
4. Other capital reserves	23	400,385	399,659
5. Retained earnings		81,312	107,808
6. Net profit (loss)		1,246	(111,529)
7. Translation differences		640	682
Non-controlling interests	23	903	902
II. Non-current liabilities		936,414	1,015,946
1. Bank and other borrowings	26	765,649	820,398
2. Deferred tax liability		65,016	65,694
3. Provisions	25	24,263	25,625
4. Accruals and deferred income	28	57,383	58,883
5. Other liabilities	27	24,103	45,346
III. Current liabilities		545,246	691,152
1. Bank and other borrowings	26	289,988	296,255
2. Trade payables	27	109,563	156,172
3. Income tax payable	27	4	958
4. Other liabilities	27	128,340	219,571
5. Provisions	25	3,163	2,947
6. Accruals and deferred income	28	14,188	15,249
Total equity and liabilities		2,751,017	2,974,524

2. Interim condensed consolidated statement of profit or loss

For the period ended June 30th 2017

	Note	restated		unaudited	unaudited
		For 6 months ended		For 3 months ended	
		Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Revenue	30	1,342,513	1,366,494	632,571	643,989
Cost of sales	31	(1,298,020)	(1,285,439)	(613,618)	(631,348)
Gross profit		44,493	81,055	18,953	12,641
Other income	32	6,643	5,020	4,911	3,298
Distribution costs	31	(392)	(411)	(154)	(127)
Administrative expenses	31	(16,132)	(19,469)	(8,130)	(11,263)
Other expenses	33	(905)	(55,870)	(545)	(55,292)
Finance income	34	5,000	5,669	1,619	4,492
Finance costs	35	(32,273)	(32,170)	(15,442)	(17,808)
Profit/(loss) before tax		6,434	(16,176)	1,212	(64,059)
Income tax	24	(5,187)	(8,871)	(1,548)	2,585
Net profit/(loss)		1,247	(25,047)	(336)	(61,474)
Net profit (loss) attributable to:		1,247	(25,047)	(336)	(61,474)
Owners of the parent		1,246	(25,002)	(338)	(61,442)
Non-controlling interests		1	(45)	2	(32)
Earnings (loss) per share:					
- diluted earnings for period attributable to owners of the parent		0.03	-0.55	-0.01	-1.35
- diluted earnings per share from continuing operations, attributable to owners of the parent		0.03	-0.55	-0.01	-1.35

Interim condensed consolidated statement of comprehensive income

	unaudited		unaudited	
	For 6 months ended		For 3 months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Net profit (loss) for period	1,247	(25,047)	(336)	(61,474)
Other comprehensive income that may be reclassified to profit or loss once specific conditions are met				
- Cash-flow hedges	726	721	(62)	687
- Translation differences	(42)	564	(12)	539
Net other comprehensive income	684	1,285	(74)	1,226
COMPREHENSIVE INCOME FOR PERIOD	1,931	(23,762)	(410)	(60,248)
Comprehensive income for period:	1,931	(23,762)	(410)	(60,248)
Owners of the parent	1,930	(23,717)	(412)	(60,216)
Non-controlling interests	1	(45)	2	(32)

3. Interim condensed consolidated statement of changes in equity

For the six months ended June 30th 2017

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Retained earnings	Net profit	Translation differences	Equity attributable to owners of the parent	Non-controlling interests	Total equity
As at Jan 1 2017	90,887	765,810	13,207	399,659	(3,721)	-	682	1,266,524	902	1,267,426
Comprehensive income for period										
- Net profit for reporting period	-	-	-	-	-	1,246	-	1,246	1	1,247
- Other comprehensive income for period	-	-	-	726	-	-	(42)	684	-	684
Transactions with owners of the parent recognised directly in equity										
- Allocation of profit	-	(85,033)	-	-	85,033	-	-	-	-	-
As at Jun 30 2017	90,887	680,777	13,207	400,385	81,312	1,246	640	1,268,454	902	1,269,357

PLN 726 thousand of other comprehensive income is related to the valuation of cash-flow hedges, discussed in detail in Note 39.

PLN 85,033 thousand is related to the allocation of the parent's net profit for 2016, discussed in detail in Note 23.4.

For the six months ended June 30th 2016

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Retained earnings	Net profit	Translation differences	Equity attributable to owners of the parent	Non-controlling interests	Total equity
As at Jan 1 2016	90,887	786,134	13,207	378,069	127,720	-	281	1,396,298	953	1,397,251
Total comprehensive income for period										
- Net profit for reporting period	-	-	-	-	-	25,002	-	25,002	(45)	24,957
- Other comprehensive income for period	-	-	-	721	-	-	564	1,285	-	1,285
Transactions with owners of the parent recognised directly in equity										
- Allocation of profit	-	(20,324)	-	41,213	(20,889)	-	-	-	-	-
- Payment of dividends	-	-	-	(22,723)	-	-	-	(22,723)	-	(22,723)
As at Jun 30 2016	90,887	765,810	13,207	397,280	106,831	25,002	845	1,399,862	908	1,400,770

PLN 721 thousand of other comprehensive income is related to the valuation of cash-flow hedges, discussed in detail in Note 39.

PLN 20,324 thousand is related to the allocation of the parent's net profit for 2016, discussed in detail in Note 23.4.

4. Interim condensed consolidated statement of cash flows

For the six months ended June 30th 2017

	Note	For 6 months ended	
		Jun 30 2017	Jun 30 2016
A. Cash flows from operating activities			
I. Profit/(loss) before tax		6,434	(16,176)
II. Total adjustments		31,450	99,148
1. Depreciation and amortisation		48,927	56,182
2. Foreign exchange (gains) losses		(1,512)	2,043
3. Interest and profit distributions (dividends)		28,753	23,189
4. Gain (loss) on investing activities		3,002	42,729
5. Income tax		2,397	(12,729)
6. Change in provisions		(1,146)	(2,201)
7. Change in inventories	36	14,218	(5,014)
8. Change in receivables	36	72,339	70,958
9. Change in current liabilities (net of borrowings)	36	(127,367)	(64,914)
10. Change in accruals and deferrals	36	(8,394)	(11,112)
11. Other adjustments		233	17
III. Net cash from operating activities (I+/-II)		37,884	82,972
B. Cash flows from investing activities			
I. Cash receipts		157	5,115
1. Disposal of intangible assets and property, plant and equipment		1	1,524
2. Proceeds from financial assets, including:		156	-
a) repayment of long-term loans advanced		156	-
3. Cash from disposal of a subsidiary		-	3,591
II. Cash payments		10,572	63,847
1. Acquisition of property, plant and equipment		10,550	63,478
2. Payments for financial assets, including:		22	369
a) acquisition of financial assets		22	52
b) Long-term loans advanced		-	317
III. Net cash from investing activities (I-II)		(10,415)	(58,732)
C. Cash flows from financing activities			
I. Cash receipts		15,947	80,609
1. Proceeds from borrowings		15,947	80,609
II. Cash payments		105,221	105,007
1. Repayment of borrowings		76,707	77,929
2. Payment of finance lease liabilities		449	912
3. Interest paid		26,988	24,525
4. Other cash payments related to financing activities		1,077	1,641
III. Net cash from financing activities (I-II)		(89,274)	(24,398)
D. Total net cash flows (A.III+/-B.III+/-C.III)		(61,805)	(158)
E. Net increase/decrease in cash, including:		(61,695)	(270)
- effect of exchange rate fluctuations on cash held		110	(112)
F. Cash at beginning of period		380,862	362,096
G. Cash at end of period, including:		319,167	361,826
- restricted cash	36	82,192	119,418

External financing sources - bank borrowings (statement of cash flows)	For 6 months ended	
	Jun 30 2017	Jun 30 2016
item C.I.1 Proceeds from borrowings	15,947	80,609
item C.II.1 Repayment of borrowings	(76,707)	(77,929)
Change in external financing sources, including:	(60,760)	2,680
net increase in investment facilities	(80,724)	39,069
net increase/decrease in VAT financing facility	-	(32,011)
net increase/decrease in overdraft facility	19,964	(4,378)

5. General information

The Polenergia Group (the "Group") comprises Polenergia S.A. (formerly Polish Energy Partners S.A., with the company name change entered in the National Court Register on September 11th 2014) (the "Company", the "parent"), and its subsidiaries. The Company was established under a notary deed of July 17th 1997. The Company is entered in the National Court Register maintained by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, under KRS No. 0000026545. The Company's Industry Identification Number (REGON) is 012693488. The Company's registered office, entered in the register on November 20th 2013, is at ul. Krucza 24/26 in Warsaw.

Polenergia shares are listed on the Warsaw Stock Exchange.

According to the entry in the National Court Register, the Company's business comprises:

- production and distribution of electricity (PKD 40.10),
- production and distribution of heat (steam and hot water) (PKD 40.30),
- construction and civil engineering (PKD 45.21),
- construction installation activities (PKD 45.3),
- other credit granting, excluding licensed activities and activities reserved for banks (PKD 65.22),
- research and development of natural sciences and engineering (PKD 73.10),
- development and sale of own real estate (PKD 70.11),
- operating of real estate on a fee or contract basis (PKD 70.32),
- accounting and bookkeeping activities (PKD 74.12),
- construction and process design, urban planning (PKD 74.20),
- business and management consultancy activities (PKD 74.14),
- other commercial activities n.e.c. (PKD 74.84),
- other education n.e.c. (PKD 80.42),
- wholesale of solid, liquid and gaseous fuels and related products (PKD 51.51).

The scope of activities of the subsidiaries is related to the operations of the parent.

5.1. Duration of the Company and other Group companies

The Company and all Group companies have been established for an indefinite period.

5.2. Periods covered by the consolidated financial statements

These interim condensed consolidated financial statements cover the six months ended June 30th 2017 and contain comparative data for the six months ended June 30th 2016 and as at December 31st 2016. The statement of profit or loss and the notes to the statement of profit or loss cover the six and three months ended June 30th 2017 and contain comparative data for the six and three months ended June 30th 2016.

As at June 30th 2017, the composition of the Parent's Management Board was as follows:

Jacek Głowacki	Vice President of the Management Board.
Bartłomiej Dujczyński	Member of the Management Board
Michał Michalski	Member of the Management Board

As at June 30th 2017 and until the date of authorisation of these interim consolidated financial statements, the composition of the parent's Supervisory Board was as follows:

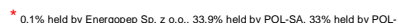
Tomasz Mikołajczak	Chairman of the Supervisory Board
Łukasz Rędziniak	Deputy Chairman of the Supervisory Board
Mariusz Nowak	Member of the Supervisory Board
Arkadiusz Jastrzębski	Member of the Supervisory Board
Brian Bode	Member of the Supervisory Board
Orest Nazaruk	Member of the Supervisory Board
Dawid Jakubowicz	Member of the Supervisory Board
Dominik Libicki	Member of the Supervisory Board
Dagmara Gorzelana-Królikowska	Member of the Supervisory Board

6. Going concern

These interim condensed consolidated financial statements have been prepared on the assumption that the Company and the Group will continue as going concerns in the foreseeable future, that is for at least 12 months after the reporting date, i.e. June 30th 2017.

7. The Group's organisational structure

As at June 30th 2017, the Group was composed of the following companies:



8. Authorisation of the financial statements

These interim condensed consolidated financial statements were authorised for issue by the parent's Management Board on August 10th 2017.

9. Applied accounting policies

These interim condensed consolidated financial statements as at June 30th 2017 have been prepared in compliance with International Accounting Standard 34.

In the period ended June 30th 2017, the presentation of costs in the statement of profit or loss for the six months ended June 30th 2016 was changed to ensure data comparability. The change had no impact on the profit or loss, the statement of financial position and the statement of cash flows for the comparative period.

	Before change Jun 30 2016	Change	After change Jun 30 2016
Cost of sales	(1,288,474)	(3,035)	(1,285,439)
Administrative expenses	(16,434)	3,035	(19,469)

The accounting policies applied in preparing these interim condensed consolidated financial statements are consistent with those applied in preparing the Group's full-year consolidated financial statements for the year ended December 31st 2016, save for new interpretations effective for annual periods beginning on or after January 1st 2017 described below and the amendments described in Note 9.9.

a) IFRS 9 *Financial Instruments*

IFRS 9 is intended to replace IAS 39. The standard is effective for annual periods beginning on or after January 1st 2018.

The standard introduces a single model that has only two classification categories for financial assets: measurement at fair value or at amortised cost. Assets are classified on initial recognition depending on an entity's financial instrument management model and the characteristics of contractual cash flows from such instruments.

IFRS 9 introduces a new impairment recognition model based on expected credit losses.

The majority of requirements under IAS 39 concerning classification and measurement of financial liabilities were incorporated into IFRS 9 unchanged. The key change is the new requirement that entities present in other comprehensive income changes in their own credit risk related to financial liabilities designated to be measured at fair value through profit or loss.

Changes were also made to the hedge accounting model to factor in risk management.

The Group will apply IFRS 9 as of January 1st 2018.

b) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* is effective for annual periods beginning on or after January 1st 2018.

The provisions of IFRS 15 will apply to all contracts giving rise to revenue. The fundamental rule provided for in the new standard is that revenue is to be recognised upon transfer of goods or services to a customer at a transaction price. Any goods or services sold in bundles that are

separately identifiable as part of the bundle are to be recognised separately, and any discounts and rebates on the transaction price should be applied to specific bundle items. Where a contract contains elements of variable consideration, under the new standard such variable consideration is recognised as revenue only if it is highly probable that the revenue will not be reversed in the future as a result of revaluation. Furthermore, in accordance with IFRS 15, the cost of obtaining and securing a contract with a customer should be capitalised and amortised over the period in which the contract's benefits are consumed.

The Group will apply IFRS 15 as of January 1st 2018.

c) Clarifications to IFRS 15 *Revenue from Contracts with Customers*

Clarifications to IFRS 15 *Revenue from Contracts with Customers* were issued on April 12th 2016 and apply to financial statements prepared after January 1st 2018.

The clarifications to IFRS 15 provide additional information and explanations concerning the main points of IFRS 15, such as identification of individual performance obligations in the contract, determination whether the entity is an agent or a principal under the contract, or accounting for revenue from licences.

Besides additional clarifications, also exemptions and simplifications for first-time adopters were introduced.

The Group will apply the clarifications to IFRS 15 as of January 1st 2018.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

As at the date of these consolidated financial statements, the clarifications to IFRS 15 had not been endorsed by the European Union.

d) IFRS 14 *Regulatory Deferral Accounts*

The standard permits an entity which is a first-time adopter of the IFRSs (on or after January 1st 2016) to continue to account for rate-regulated activities in accordance with its previous accounting policies. To ensure better comparability with entities which already use IFRS and do not account for such activities, in accordance with the issued IFRS 14, amounts from rate-regulated activities should be presented as a separate item in the statement of financial position, statement of profit or loss, and statement of comprehensive income.

Under the European Union's decision, IFRS 14 will not be endorsed.

e) IFRS 16 *Leases*

IFRS 16 *Leases*, issued by the International Accounting Standards Board on January 13th 2016, is effective for annual periods beginning on or after January 1st 2019.

The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. Upon commencement of any lease, a lessee is required to recognise a right-of-use asset and a lease liability. Thus, IFRS 16 abolishes the operating and finance lease classification under IFRS 17 and provides a single lessee accounting model requiring lessees to recognise (a) assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value and (b) amortisation of the leased asset separately from interest on lease liability in the statement of profit or loss.

IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor, IAS 17. Lessors continue to classify leases as operating or finance, with each of them subject to different accounting treatment.

The Group will apply IFRS 16 following its endorsement by the European Union.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

As at the date of preparation of these consolidated financial statements, the amendments had not been endorsed by the European Union.

f) IFRS 17 Insurance Contracts

IFRS 17 *Insurance Contracts*, issued by the International Accounting Standards Board on May 18th 2017, is effective for annual periods beginning on or after January 1st 2021.

New IFRS 17 will replace existing IFRS 4, which allows for a variety of practice in accounting for insurance contracts. IFRS 17 will substantially change the accounting of all entities that deal with insurance contracts and investment agreements.

The Group will apply IFRS 17 following its endorsement by the European Union.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

g) Amendments to IFRS 10 and IAS 28 concerning sale or contribution of assets between an investor and its associate or joint venture

The amendments address the current inconsistency between IFRS 10 and IAS 28. The accounting approach depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a business.

Full gain or loss is recognised by the investor if the non-monetary assets constitute a business. If the assets do not meet the definition of a business, the investor recognises a partial gain or loss, excluding the part corresponding to other investors' interests.

The amendments were issued on September 11th 2014. The effective date of the amended regulations has not been set by the International Accounting Standards Board.

The Group will apply the amended regulations from their effective date set by the International Accounting Standards Board.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

As at the date of these consolidated financial statements, endorsement of the amendments had been postponed by the European Union.

h) Amendments to IAS 12 related to recognition of deferred tax assets for unrealised losses

The amendments to IAS 12 clarify the requirements concerning recognition of a deferred tax asset for unrealised losses on debt instruments. An entity will be required to recognise a deferred tax asset for unrealised losses if they result from discounting cash flows related to debt instruments using a market interest rate, also if it intends to hold such debt instruments to maturity and the collection of the principal does not trigger any tax payments. The economic benefit embodied in the

related deferred tax asset results from the ability of the holder of the debt instruments to achieve future gains (by unwinding the discount) without paying taxes on those gains.

The amendment is effective for annual periods beginning on or after January 1st 2017; however, as at the date of preparation of these consolidated financial statements, the amendment had not been endorsed by the European Union.

The Group will apply the above amendments when and as endorsed by the European Union.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

i) Amendments to IAS 7 – disclosure initiative

The amendment to IAS 7 is effective for annual periods beginning on or after January 1st 2017; however, as at the date of preparation of these consolidated financial statements, the amendment had not been endorsed by the European Union.

Entities will be required to disclose a reconciliation of changes in liabilities arising from financing activities.

The Group will apply the above amendment when and as endorsed by the European Union.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

j) Amendments to IFRS 2 – *Classification and measurement of share-based payment transactions*

The amendments to IFRS 2 are effective for annual periods beginning on or after January 1st 2018. The amendments provide guidance on measurement at fair value of a liability under cash-settled share-based payment transactions, reclassification from cash-settled share-based payment transactions to equity-settled share-based payment transactions, and recognition of an employee's tax liability under share-based transactions.

The Group will apply the amendments as of January 1st 2018.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

As at the date of preparation of these consolidated financial statements, the amendments had not been endorsed by the European Union.

k) Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments to IFRS 4 *Insurance Contracts* address concerns about issues arising from implementing IFRS 9 *Financial Instruments*. The released amendments to IFRS 4 complement the options already existing in the standards and seek to prevent temporary fluctuations in insurance companies' results caused by adoption of IFRS 9.

The Group will apply the amendments as of January 1st 2018.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

As at the date of preparation of these consolidated financial statements, the amendments had not been endorsed by the European Union.

l) IFRS Annual Improvements cycle 2014–2016

In December 2016, the International Accounting Standards Board issued 'Annual Improvements to IFRSs cycle 2014–2016', containing amendments to three standards: IFRS 12 *Disclosure of Interest in Other Entities*, IFRS 1 *First-time Adoption of IFRS*, and IAS 28 *Investments in Associates and Joint Ventures*.

The improvements contain clarifications and changes to the scope of the standards, recognition and measurement, as well as terminological and editorial changes.

The Group will apply the amendments {as and when endorsed by the European Union (amendments to IFRS 12)/ as of January 1st 2018 (amendments to IFRS 1 and IAS 28)}.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

As at the date of these consolidated financial statements, the amendments had not been endorsed by the European Union.

m) Amendments to IAS 40 *Transfers of investment property*

Amendments to IAS 40 clarify the requirements for transfers to and from investment properties. The amendment is effective for annual periods beginning on or after January 1st 2018.

The Group will apply the amendments as of January 1st 2018.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

As at the date of preparation of these consolidated financial statements, the amendments had not been endorsed by the European Union.

n) IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 provides guidance applicable when an entity receives or pays consideration in advance in a foreign currency. The guidelines are effective for annual periods beginning on or after January 1st 2018.

The Group will apply the amendments as of January 1st 2018.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

As at the date of preparation of these consolidated financial statements, the amendments had not been endorsed by the European Union.

o) IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 clarifies application of recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The guidelines are effective for annual periods beginning on or after January 1st 2019.

The Group will apply the amendments as of January 1st 2019.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

As at the date of preparation of these consolidated financial statements, the amendments had not been endorsed by the European Union.

9.1. Basis of accounting

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 and cover the six months from January 1st to June 30th 2017 and a comparative period from January 1st to June 30th 2016, and contain data for the second quarter of 2017 and the second quarter of 2016, as well as data as at December 31st 2016, presented in the statement of financial position. In accordance with the applicable laws, these interim condensed consolidated financial statements for the six months ended June 30th 2017 have been reviewed by an independent auditor, whereas the comparative data for the financial year ended December 31st 2016 has been audited.

These consolidated financial statements have been prepared on the historical cost basis, except with respect to the following material items of the statement of financial position:

- financial derivatives, measured at fair value.

The International Financial Reporting Standards comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

Some of the Group companies keep their accounts in accordance with the accounting policies defined in the Polish Accounting Act of September 29th 1994, as amended (the "Act"), and secondary legislation issued thereunder (the "Polish Accounting Standards"). In these consolidated financial statements certain adjustments have been made to bring the financial statements of these companies into conformity with the IFRS, which are not disclosed in their books of account.

9.2. Significant accounting judgements

Certain information presented in these consolidated financial statements is based on the Group's estimates and professional judgement. The amounts determined in that manner will often differ from actual results. The judgements and estimates with the largest impact on the valuation and recognition of assets and liabilities include:

- Classification and valuation of leases – the Group as the lessor – the Group classifies its lease agreements as finance leases or operating leases based on the assessment of the extent to which substantially all the risks and benefits incidental to ownership of the leased asset have been transferred from the lessor to the lessee. Such assessment is in each case based on the economic substance of a given transaction;
- Receivables from sale of wind farms – the date of collecting the receivables depends on the fulfilment of agreement terms.

In the six months ended June 30th 2017, the Group made no changes in its method of making judgements affecting the information presented in the interim condensed consolidated financial statements. The amounts arrived at using professional judgement are presented in Note 19.

9.3. Significant estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period which carry a significant risk of a material adjustment being required to the carrying amounts of assets and liabilities in the next financial year are discussed below:

- Impairment losses on wind farm development projects (Note 33);
- Classification of certificates of origin and emission reduction units;
- Depreciation/amortisation rates – depreciation/amortisation rates are set based on the anticipated useful lives of property, plant and equipment and intangible assets. The Group reviews the useful lives of its assets annually, on the basis of current estimates;
- Impairment losses on receivables (Note 19),
- Provisions for disputes and unused holiday entitlements (Note 25);
- Financial assets and liabilities under forward contracts (Note 21);
- Compensation for stranded costs and compensation for the cost of consumption of collected natural gas and of uncollected natural gas ("cost of gas") – the Company's future operations are significantly influenced by the Agreement Terminating the Long-Term Electricity Supply Contract ("LTC") with PGE Polska Grupa Energetyczna S.A. (previously Polskie Sieci Elektroenergetyczne S.A.), signed by the Management Board of Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. on December 28th 2007 pursuant to the Act on Rules of Compensating for Costs Incurred by Energy Producers Due to Early Termination of Long-Term Capacity and Electricity Purchase Contracts ("LTC Termination Act"), passed by the lower chamber of the Polish Parliament (the Sejm) on June 29th 2007. Under the Termination Agreement, the Company's LCT was terminated on March 31st 2008 in exchange for compensation intended to cover stranded costs and the cost of gas. Under the LTC Termination Act, the maximum compensation payable to the Company is PLN 777.5m – to cover stranded costs, and PLN 340.7m – to cover the cost of gas. The Company calculates the amount of stranded costs and compensation for the cost of gas based on the formulas specified in Art. 30, 31, 45 and 46 of the LTC Termination Act. Due to the length of the period covered by the calculations, the estimated amounts may change (as described in more detail in Note 42). The amounts disclosed as at the end of the reporting period have been estimated based on the Company's best knowledge and data available on that date;
- Deferred tax – the Group recognises a deferred tax asset if it is assumed that taxable income will be generated in the future against which the asset can be utilised. If taxable income deteriorates in the future, this assumption may prove invalid;

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- Impairment of assets – the Group carried out tests for impairment of non-current assets. This required an estimation of the value in use of the cash-generating unit to which these non-current assets belong. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows.

In the six months ended June 30th 2017, the Group made no changes in its method of making estimates affecting the information presented in the interim condensed consolidated financial statements, and the estimated amounts were presented in notes referred to above.

9.4. Measurement currency and reporting currency of the consolidated financial statements

The functional currency of the parent and other companies covered by these consolidated financial statements and the reporting currency of these consolidated financial statements is the Polish złoty (PLN) or the euro (EUR) (in the case of PPG Pipeline Projektgesellschaft mbH).

9.5. Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of Polenergia S.A. and the financial statements of its subsidiaries for the six months ended June 30th 2017. Subject to adjustments made to ensure compliance with IFRS, the financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the parent, using uniform accounting policies, and with accounting policies consistently applied to economic events and transactions of a similar nature. Adjustments are made in order to eliminate any discrepancies in the accounting principles applied by the companies.

Subsidiaries are fully consolidated starting from the date when the parent obtains control and cease to be consolidated when that control is lost. The parent controls a subsidiary when it is exposed or has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. The Group ceases to consolidate a subsidiary once it ceases to control the subsidiary.

Acquisition of control of an entity representing a business within the meaning of IFRS 3 is accounted for with the acquisition method. As at the date of inclusion of a subsidiary in the consolidated financial statements, its identifiable assets and liabilities are recognised at fair value. The difference between the fair value of such assets and liabilities and the purchase price, also determined at fair value, non-controlling interests and the fair value of previously held interests, is recognised as goodwill under a separate item of the consolidated statement of financial position.

Any balances and transactions of significant value between Group companies, including unrealised gains from intra-Group transactions, are fully eliminated. Unrealised losses are eliminated unless they are indicative of impairment.

9.6. Investments in associates

Shares in associates are accounted for with the equity method. Associates are those entities over which the parent has significant influence, either directly or indirectly through its subsidiaries, but which are neither its subsidiaries nor joint ventures. The financial statements of associates serve as the basis for equity method valuation of the interests held by the parent. The financial year of associates and of the parent is the same.

Investments in associates are recognised in the statement of financial position at cost, increased by subsequent changes in the parent's share in net assets of the entities, less impairment losses, if

any. The parent's share in profits or losses of associates is reflected in the statement of profit or loss. An adjustment to the carrying amount may also be necessary in the case of a change in the proportion of the interest held in an associate following changes in the associate's other comprehensive income. Investments in associates are tested for impairment whenever there is indication of impairment or indication that any previously recognised impairment is no longer required.

If a change is recognised directly in the equity of an associate, the parent recognises its share in each change and, if applicable, discloses it in the statement of changes in equity.

9.7. Goodwill

Goodwill arising on acquisition is initially recognised at cost, equal to the excess of:

- the consideration transferred,
- the amount of any non-controlling interest in the acquire, and
- in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously-held equity interest in the acquire,

over net identifiable assets acquired and liabilities assumed as at the acquisition date.

Following the initial recognition, goodwill is carried at cost less cumulative impairment losses. Goodwill is tested for impairment annually, or more frequently if there is any indication of impairment. Goodwill is not amortised.

As at the acquisition date, the acquired goodwill is allocated to each of the cash-generating units that may benefit from the synergies of the business combination. Each unit or set of units to which goodwill has been allocated:

- corresponds to the lowest level at which goodwill is monitored for internal management purposes, and
- is not greater than a single operating segment, determined in accordance with IFRS 8 *Operating Segments*.

Impairment of goodwill is determined by estimating the recoverable amount of the cash-generating unit to which the goodwill has been allocated. If the recoverable amount of a cash-generating unit is lower than its carrying amount, the Group recognises an impairment loss. If goodwill comprises a part of a cash-generating unit and the Group sells a part of the cash-generating unit's business, the goodwill pertaining to the sold business is included in the carrying amount of the sold business for the purpose of calculating gains or losses on disposal of the part of business. In such a case goodwill disposed of is measured on the basis of the relative value of the operations disposed of and the value of the portion of the cash-generating unit retained.

9.8. Intangible assets

Intangible assets which are separately acquired or produced (if they meet the criteria for being recognised as development expenditure) are initially recognised at cost. Cost of intangible assets acquired in a business combination is equivalent to their fair value as at the date of the combination. Following initial recognition, intangible assets are measured at cost less accumulated amortisation and impairment losses, if any. With the exception of capitalised development expenditure, expenditure on intangible assets produced by the Group is not capitalised and is charged to expenses in the period in which it was incurred.

The Group determines whether intangible assets have definite or indefinite useful lives. Intangible assets with definite useful lives are amortised over their useful lives and tested for impairment each time there is an indication of impairment. The amortisation period and the amortisation method for an intangible asset with a definite useful life are reviewed at the end of each financial year or more frequently. Changes in the expected useful life or pattern of consumption of the future economic benefits embodied in an asset are disclosed by changing the amortisation period or amortisation

method, as appropriate, and are accounted for as changes in accounting estimates. Amortisation charges on intangible assets with definite useful lives are recognised in profit or loss in the category that corresponds to the function of a given intangible asset.

Intangible assets with indefinite useful lives and those that are not used are tested for impairment annually at the level of the separate asset or the relevant cash generating unit.

Expected useful lives of intangible assets are as follows:

Patents, licences	1 year
Software	2-5 years
Other intangible assets	5 years

Expenditure on research activities is charged to the statement of profit or loss as incurred. Costs of development work performed with respect to a given project are carried forward if they are expected to be recovered in the future. After initial recognition of expenditure on development work, the historical cost model is applied, which requires that assets be disclosed at cost less accumulated depreciation/amortisation and impairment. Any expenditure carried forward is amortised over the period during which income is expected to be generated from the sale of a given project.

The carrying amount of development costs is reviewed for impairment annually if the asset is not yet in use, or more frequently if an indication of impairment has been identified during the reporting period, which may suggest that the carrying amount may not be recoverable.

Gains or losses from derecognition of an intangible asset are measured as the difference between net proceeds from the sale of the asset and its carrying amount, and are recognised in the statement of profit or loss upon derecognition of the asset.

9.9. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, if any.

The initial value of an item of property, plant and equipment is represented by its cost, which includes all costs directly related to its acquisition and bringing it to working condition for its intended use. The cost also includes the cost of replacing component parts of plant and equipment, which is recognised when incurred if relevant recognition criteria are fulfilled. Costs incurred after an item of property, plant and equipment has been placed in service, such as costs of maintenance or repair, are charged to profit or loss when incurred.

Upon acquisition, property, plant and equipment are divided into components of material value which can be assigned different economic useful lives. The cost of overhauls is also deemed a component.

Property, plant and equipment, other than land, are depreciated using the straight-line method over their estimated useful lives. Based on an expert opinion, starting from 2017, the economic useful life of wind farms has been extended from 20 to 25 years. Accordingly, the depreciation period for tangible assets related to operating wind farms will be five years longer.

Buildings and structures	25 years
Plant and equipment	2.5–25 years
Vehicles	2.5–5 years
Other property, plant and equipment	5–7 years

Residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed annually and, if necessary, adjusted with effect as of the beginning of the next financial year.

Each item of property, plant and equipment is accounted for separately and depreciated over its useful life.

An item of property, plant and equipment can be derecognised on disposal or when no future economic benefits are expected from its further use. Any gains or losses on derecognition of an asset from the statement of financial position (calculated as the difference between net proceeds from its sale, if any, and the carrying amount of the asset) are disclosed in profit or loss of the period of derecognition.

9.10. Property, plant and equipment under construction

Property, plant and equipment under construction are measured at cost or aggregate cost incurred in the course of their production or acquisition, less impairment losses. Investment materials are carried as property, plant and equipment under construction. Property, plant and equipment under construction are not depreciated until completed and placed in service. Wind farm development expenditure is also recognised as property, plant and equipment under construction.

9.11. Borrowing costs

The costs of bank and other borrowings which may be directly attributed to an acquisition, construction or production of a qualifying asset are capitalised as part of the cost of such asset. Borrowing costs comprise interest and foreign exchange gains or losses up to an amount equal to the adjustment to interest expense.

9.12. Impairment losses on non-financial non-current assets

An assessment is made at the end of each reporting period to determine whether there is any indication that any of non-financial non-current assets may be impaired. If the Group finds that there is such indication, or if the Group is required to perform annual impairment tests, it estimates the recoverable amount of a given asset or the cash-generating unit to which a given asset belongs.

The recoverable amount of an asset or cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for individual assets, unless a given asset does not generate separate cash flows largely independent from those generated by other assets or asset groups. If the carrying amount of an asset is higher than its recoverable amount, the value of the asset is impaired and an impairment loss is recognised, reducing the asset's carrying amount to the established recoverable amount. In assessing value in use, the projected cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the expense categories consistent with the function of the impaired asset.

The Group assesses at the end of each reporting period whether there is any indication that previously recognised impairment of an asset no longer exists or should be reduced. If such indication exists, the Group estimates the asset's recoverable amount. A recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. In such a case, the carrying amount of the asset is increased up to its recoverable amount. The increased value may not exceed the carrying amount of the asset that would have been determined (after accumulated amortisation/depreciation) if no impairment losses had been recognised on that asset in the previous years. Reversal of an impairment loss is immediately recognised as income in profit or loss. Following reversal of an impairment loss, in the subsequent periods the amortisation/depreciation charge related to a given asset is adjusted so that its revised carrying amount, less residual value, can be regularly written off over the remaining useful life of the asset.

9.13. Financial assets

Financial assets are classified into the following categories:

- Financial assets held to maturity,
- Financial assets at fair value through profit or loss,
- Loans and receivables,
- Financial assets available for sale.

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity, other than:

- financial assets that have been designated at fair value through profit or loss upon initial recognition,
- Financial assets designated as available for sale,
- Financial assets that qualify as loans and receivables.

Financial assets held to maturity are measured at amortised cost using the effective interest rate method. Financial assets held to maturity are classified as non-current assets if they mature more than 12 months after the reporting period.

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

- a) it is classified as held for trading. Financial assets are classified as held for trading if they:
 - have been acquired principally for the purpose of being sold in the near future,
 - are part of a portfolio of identified financial instruments that are managed together and for which there is probability of profit-taking in the near future,
 - are derivative instruments (except for those which are part of hedge accounting or financial guarantee contracts).
- b) it has been assigned to this category on initial recognition, in accordance with IAS 39.

An entire contract can be designated as financial asset at fair value through profit or loss if it contains one or more embedded derivative instruments. This does not apply to situations where an embedded derivative does not materially affect the cash flows of the contract or its separation is prohibited. Financial assets may be designated as financial assets at fair value through profit or loss on initial recognition if the following criteria are met: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, (ii) the assets are part of a group of financial assets that are managed and measured based on fair value, according to a documented risk management strategy, or (iii) the financial assets contain embedded derivative instruments which should be presented separately.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets if their maturity does not exceed 12 months after the end of the reporting period. Loans and receivables with maturities exceeding 12 months from the end of the reporting period are classified as non-current assets.

Financial assets available for sale are non-derivative financial assets which have been classified as available for sale, or which do not belong to any of the previous three categories. Financial assets available for sale are recognised at fair value (without deducting the sale transaction costs), determined by reference to their market value as at the reporting date. If quoted market prices from an active market are not available and the fair value cannot be reliably measured using alternative methods, available-for-sale financial assets are measured at cost less impairment losses, if any. The positive or negative difference between the fair value of available-for-sale financial assets (if they have a market price derived from an active market or their fair value can be otherwise established in a reliable manner) and their cost is recognised net of deferred tax in other

comprehensive income. Impairment losses on available-for-sale financial assets are recognised in other expenses.

Any purchase or sale of financial assets is recognised at the transaction date. On initial recognition, financial assets are recognised at fair value plus – in the case of financial assets other than those at fair value through profit or loss – transaction costs directly attributable to the purchase.

A financial asset is derecognised from the statement of financial position upon expiry or transfer of contractual rights to cash flows from the asset following a transaction whereby the Group transferred substantially all risks and rewards related to that financial asset, which usually takes place upon sale of the instrument or where all cash flows attributable to the instrument are transferred to a third party.

9.14. Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that the value of loans and receivables measured at amortised cost has been impaired, an impairment loss is recognised in the amount equal to the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (excluding future losses relating to irrecoverable receivables, which have not yet been incurred), discounted using the initial effective interest rate (i.e. the interest rate used at the time of initial recognition). The carrying amount of the asset is reduced directly or by recognising an impairment loss, which is charged to profit or loss.

The Group first determines whether there exists an objective indication of impairment with respect to each financial asset that is deemed material, and with respect to financial assets that are not deemed material individually. If the analysis shows that there is no objective evidence of impairment for an individually assessed financial asset, regardless of whether it is significant or not, the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively tests them for impairment. Assets that are individually tested for impairment and for which an impairment loss has been recognised or it has been concluded that the previously recognised impairment loss will not change, are not taken into account in collective testing of assets for impairment.

If an impairment loss decreases in a subsequent period, and the decrease may be objectively associated with an event that occurred after the impairment loss recognition, the recognised impairment loss is reversed. Reversal of an impairment loss is recognised in profit or loss in so far as the carrying amount of the asset does not exceed its amortised cost as at the reversal date.

Financial assets carried at cost

If there exists an objective indication of impairment of a non-traded equity instrument which is not carried at fair value since such value cannot be reliably determined, or of a related derivative instrument which must be settled by delivery of such non-traded equity instrument, the amount of impairment loss is established as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted with the market rate applicable to similar financial assets prevailing at a given time.

Financial assets available for sale

If there exists an objective indication of impairment of a financial asset available for sale, the amount of the difference between the cost of that asset (less any principal payments) and its current fair value, reduced by any impairment losses previously recognised in profit or loss, is removed from equity and taken to profit or loss. Reversals of impairment losses on equity instruments classified as available for sale may not be recognised in the statement of profit or loss. If in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively attributed to an event that occurred after the impairment loss was

recognised in profit or loss, the impairment loss is reversed and the reversal amount is recognised in profit or loss.

9.15. Hedge accounting

The Group hedges cash flows against interest rate movements related to future loan repayments (by exchanging the floating interest rate under a loan agreement for a fixed interest rate) and against exchange rate movements related to foreign-currency loan repayments. The derivatives designated as hedging instruments are an interest rate swap and a currency forward.

For more information on hedge accounting, see Note 39.

In 2017, in accordance with its adopted 'Hedge Accounting Guidelines', the Group measured hedge effectiveness both ex-post (retrospectively) and ex-ante (prospectively), using the dollar offset method.

For accounting purposes, effectiveness is measured with the use of the 'hypothetical derivative' method. The method compares the change in fair value of an Interest Rate Swap (IRS) designated as a hedging instrument and the change in fair value of a hypothetical IRS on a cumulative basis from the inception of the hedging relationship. The hypothetical IRS has terms identical to those of the hedged item, and its fair value at the inception of the hedging relationship is nil.

Hedge ineffectiveness is calculated by comparing the cumulative change in fair value of the IRS designated as a hedging instrument and the cumulative change in fair value of the 'ideal' hypothetical IRS, in each case starting from the inception of the hedging relationship.

Subsequent to the inception of the hedging relationship, gains or losses arising on remeasurement of fair value of the hedging instrument are recorded based on determination what portion of the change in its carrying amount reflects the effective portion of the hedge. The determination is made as at each date of preparation of financial statements/reporting date on a cumulative basis from the inception of the hedging relationship until that date. The Company determines the effective and ineffective portion of the hedge taking into account changes in its clean fair value, which is its fair value less unrealised interest accruals.

The effective portion of the change in fair value of the hedging instrument is recognised in other comprehensive income, while the ineffective portion is recognised in profit or loss.

For information on fair values of the derivatives disclosed in the statement of financial position, see Note 38.

9.16. Leases

The Group as a lessee

Finance leases, which transfer substantially all the risks and rewards incidental to the ownership of the leased asset to the Group, are recognised in the statement of financial position at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. The finance charge is taken directly to profit or loss.

Property, plant and equipment used under finance leases are depreciated over the shorter of their estimated useful life and the lease term.

Leases under which the lessor retains substantially all risks and rewards resulting from the ownership of the leased asset are classified as operating leases. Operating lease payments are recognised as an expense in profit or loss over the lease term on a straight-line basis.

The Group as a lessor

Assets leased out under a finance lease are presented as receivables in an amount equal to the net investment in the lease. Lease payments are apportioned between the finance income and the reduction of the lease receivable. The finance charge and finance income are taken directly to profit or loss.

9.17. Inventories

Inventories are measured at the lower of cost and net realisable value. Costs incurred in bringing materials inventories to their present location and condition are included in the cost of the inventories and measured at cost determined using the weighted average cost formula.

Net realisable value is the selling price realisable as at the reporting date, net of VAT and excise duty, less any rebates, discounts and other similar items, and less estimated costs to complete and costs to sell.

Being assets held for sale in the course of core operations, certificates of origin (see Section 9.27.2) and emission reduction units (see Section 9.31) are recognised as inventories.

9.18. Current and non-current receivables

Trade receivables other than lease receivables (for details see Section 9.16) are measured at amounts due less impairment losses.

Receivables are remeasured to account for the probability of their payment and impairment losses are recognised where necessary. Impairment losses on receivables are charged to other expenses or finance costs, depending on the nature of the receivables.

Receivables which have been cancelled, have become time-barred or unrecoverable, for which no impairment losses have been recognised (or where recognised impairment losses do not cover the full amount receivable), are posted to other expenses or finance costs, as appropriate.

Receivables from the state budget are presented as other current receivables, except for corporate income tax receivable, disclosed as a separate item of the statement of financial position.

If the effect of the time value of money is material, the receivable is measured by discounting expected future cash flows to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money. If the discount method is applied, any increase in the amount of the receivables reflecting the passage of time is recognised as finance income.

9.19. Foreign currency transactions

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the rate of exchange prevailing on the transaction date.

Cash, bank borrowings and other monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency as at the reporting date at the exchange rate prevailing on the transaction date (for entities having the Polish złoty as their functional currency, the mid rate quoted by the NBP is used). Foreign exchange differences on translation and settlement of positions are recognised in finance income or costs, as appropriate. Changes in the fair value of derivatives designated as hedging instruments for hedge accounting purposes are recognised in accordance with applicable hedge accounting policies (see Note 39).

The following exchange rates were used to determine the carrying amounts:

	Jun 30 2017	Dec 31 2016	Jun 30 2016
USD	3.7062	4.1793	3.9803

EUR	4.2265	4.4240	4.4255
GBP	4.8132	5.1445	5.3655

9.20. Cash and cash equivalents

Cash and cash equivalents disclosed in the consolidated statement of cash flows comprise cash in hand, bank deposits maturing in up to three months, and treasury bills and bonds not classified as investing activities.

9.21. Accruals and deferrals

The Group recognises prepayments where costs relate to future reporting periods. Accrued expenses are recognised at probable amounts of current-period liabilities.

9.22. Share capital

Share capital is disclosed at its amount defined in the parent's Articles of Association and entered in the national court register. Any difference between the fair value of consideration received and the par value of shares is recognised in statutory reserve funds under share premium account. Amounts paid for share repurchases are charged to equity and disclosed in the statement of financial position as treasury shares.

9.23. Provisions

Provisions are recognised if Group companies have a legal or constructive obligation resulting from a past event and when it is certain or highly probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where expenditure required to settle the obligation is expected to be reimbursed by another party (e.g. under an insurance agreement), the reimbursement is recognised as a separate asset when, and only when, it is virtually certain that it will be actually received. Cost related to a given provision is recognised in profit or loss net of any recoveries. If the effect of the time value of money is material, the amount of a provision is determined by discounting the projected future cash flows to their present value, using a pre-tax discount rate reflecting the current market estimates of the time value of money, as well as any risk associated with a given obligation. If the discount method is applied, an increase in the provision as a result of the passage of time is recognised as finance costs.

9.24. Provisions for retirement gratuity and jubilee benefits

In accordance with company remuneration systems, Group employees are entitled to jubilee and retirement gratuity benefits. Jubilee benefits are paid after a specific period of employment, whereas retirement gratuity benefits are one-off benefits, paid out when the employee retires. Amounts of such benefits depend on the length of service and the average remuneration of an employee. The Company recognises a provision for future retirement gratuity and jubilee benefit obligations in order to allocate costs to the periods to which they relate. According to IAS 19, jubilee benefits are classified as other long-term employee benefits, whereas retirement gratuity benefits – as defined post-employment benefit plans. The calculated value of the obligations is equal to the amount of discounted future payments, taking into account employee turnover, and relate to the period ending on the reporting date. Information on demographics and employee turnover is based on historical data.

9.25. Interest-bearing borrowings and other debt instruments

All borrowings and other debt instruments are initially recognised at fair value net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing borrowings and other debt instruments are measured at amortised cost using the effective interest rate method.

Amortised cost includes the cost of obtaining the funding as well as any discounts or premiums obtained in connection with the liability.

Any gains or losses are taken to profit or loss when the liability is derecognised or accounted for using the effective interest rate method.

9.26. Trade and other payables

Short-term trade payables are reported at nominal amounts payable. Financial liabilities at fair value through profit or loss include financial liabilities held for trading, and financial liabilities initially designated as financial liabilities at fair value through profit or loss. Financial liabilities are classified as held for trading if they have been acquired for the purpose of being sold in the near future. Derivative financial instruments, including separated embedded derivatives, are also classified as held for trading, unless they are considered as effective hedges. Financial liabilities may be designated as financial liabilities at fair value through profit or loss on initial recognition if the following criteria are met: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, (ii) the liabilities are part of a group of financial liabilities that are managed and measured based on fair value, according to a documented risk management strategy, or (iii) the financial liabilities contain embedded derivative instruments which should be presented separately.

Financial liabilities other than financial instruments at fair value through profit or loss are measured at amortised cost using the effective interest rate method.

The Group derecognises a financial liability when it is extinguished, that is when the obligation specified in the contract is either discharged or cancelled or expires. When a debt instrument between the same parties is replaced by another instrument whose terms are substantially different, the Group treats such replacement as if the former financial liability was extinguished and recognises a new liability. Similarly, material modifications to the terms of a contract concerning an existing financial liability are presented as extinguishment of the former and recognition of a new financial liability. Any differences in the respective carrying amounts arising in connection with the replacement are charged to profit or loss.

Other non-financial liabilities include in particular value added tax payable to tax authorities and liabilities under prepayments received, to be settled by supplying merchandise or property, plant and equipment or by rendering of services. Other non-financial liabilities are recognised at amounts due.

9.27. Recognition of revenue

Revenue is recognised to the extent it is probable that the Company will receive economic benefits which can be reliably measured. Revenue is recognised at fair value of the consideration received or receivable, net of value added tax (VAT), excise tax and discounts. Revenue recognition is also subject to the criteria presented below.

9.27.1 Sale of merchandise and products

Revenue from sale of products and merchandise, including electricity, heat and pellets, is recognised when significant risks and rewards incidental to the ownership of merchandise or products have been transferred to the customer, and if the revenue amount can be reliably estimated.

9.27.2 Certificates of origin

Due to the short operating cycle and high turnover, green certificates of origin and yellow certificates of origin for energy produced by high-efficiency gas-fired cogeneration sources are measured at fair value and recognised as operating income and current assets (inventories) when energy is generated, to the extent it is probable that the Group will receive the related economic benefits.

9.27.3 Recognition of compensation for stranded costs and cost of gas

Compensation for stranded costs, which the Group is entitled to receive under the LTC Termination Act (for details, see Note 9.3 and Note 42), is recognised as revenue on a systematic basis over the accounting period pro rata to estimated operating profit or loss from sale of electricity, capacity and ancillary services, net of accumulated depreciation/amortisation of non-current assets used in these operations.

In any given accounting period the revenue may not exceed the lower of: (a) cumulative compensation receivable, estimated in accordance with the rules of final settlement set out in Art. 31.1 of the LTC Termination Act, and (b) the maximum amount of compensation that the entity may receive in accordance with Schedule 2 to the LTC Termination Act.

In a corresponding entry, compensation for stranded costs is recognised as a receivable from Zarządca Rozliczeń S.A. Prepayments of compensation for stranded costs, made in equal quarterly instalments in cash, are recognised as a decrease in receivables disclosed in prior periods. The balance shown in the settlement account of Zarządca Rozliczeń S.A. as at each reporting date is the best estimate of net receivables owed to or net payables due from the Company, reflecting the amounts of compensation actually received.

Compensation for the costs referred to in Art. 44 of the LTC Termination Act that are incurred by gas-fired units ("cost of gas") is recognised as revenue on a systematic basis over the accounting period, based on actual quantities of electricity and costs of gas and coal. If actual data is not available as at the reporting date, the most up-to-date estimates are used instead. The other policies for recognising and accounting for compensation for cost of gas are the same as those applied to compensation for stranded costs.

9.27.4 Futures and forward contracts

Futures and forward contracts to buy or sell electricity (including physical-delivery contracts) entered into by the subsidiary Polenergia Obrót are classified as derivatives and accounted for in accordance with standards applicable to derivative instruments, as electricity traded under the contracts is readily convertible into cash.

Contracts to buy and sell electricity entered into by the other Group companies fall outside the scope of IAS 39 based on the 'own use' exemption.

Accordingly, such contracts are measured at fair value, with changes in fair value recognised in profit or loss. Gains and losses on the valuation of outstanding contracts as at the reporting date are recognised on a net basis under revenue or cost of sales, as appropriate. Valuation gains and

losses are recognised on a net basis under revenue or cost of sales, as appropriate. Valuation is performed with respect to the outstanding part of the contracts, which is broken down into current portion (to be settled within 12 months from the reporting date), and non-current portion (to be settled in subsequent years).

Typically, the contracts are settled on a gross basis through physical delivery of electricity.

Transactions under electricity sale contracts which are settled during the year through physical delivery of electricity are disclosed as revenue at amounts receivable under the contracts (on contract settlement, revenue is adjusted for the previously recognised gains and losses from revaluation of electricity sale derivatives).

Cost of electricity purchase contracts which are settled during the year through physical purchase of electricity is presented under cost of sales at the purchase price (on contract settlement, cost of sales is adjusted for the previously recognised gains and losses from revaluation of electricity purchase derivatives).

9.27.5 Recognition of carbon emission allowances

Free carbon emission allowances were not recognised in the statement of financial position when they were allotted or in the subsequent periods. Following the transfer of the Neutron Group's assets onto the Group, the acquired carbon emission allowances were measured at fair value and recognised as intangible assets.

Revenue from sale of allowances acquired for resale is recognised as revenue, and the cost of allowances sold is recognised as cost of sales (raw materials and consumables used). If emission allowances held by the Group as at end of the reporting period do not fully cover its actual CO2 emissions in a given year, the Group recognises a provision for the costs of covering the deficit.

9.27.6 Interest

Interest income is recognised gradually as it accrues (using the effective interest rate method, the effective interest rate being one that discounts future cash flows over the estimated life of the financial instrument) relative to the net carrying amount of a given financial asset.

9.27.7 Dividends

Dividends are recognised when the shareholder's right to receive payment is established,

9.27.8 Grants

If there is reasonable certainty that a grant will be received and that all related conditions will be fulfilled, grants are recognised at fair value.

If a grant relates to a cost item, it is recognised as income in matching with the expenses it is to compensate for. Where the grant relates to an asset, its fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset in equal annual instalments.

9.28. Taxes**9.28.1 Current income tax**

Current tax asset and income tax payable for the current period and for previous periods are measured at the amount expected to be paid to (or recovered from) tax authorities, using the tax rates and tax legislation that have been enacted or substantively enacted at the end of the reporting period.

9.28.2 Deferred tax

For the purposes of financial reporting, the Company calculates deferred tax using the balance-sheet liability method in relation to temporary differences existing as at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts as disclosed in the financial statements.

A deferred tax liability is recognised for all taxable temporary differences:

- Except where the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- In the case of taxable temporary differences associated with investments in subsidiaries or associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences, as well as unused tax credits and unused tax losses brought forward, to the extent it is probable that taxable income will be available against which the deductible temporary differences, tax credits and tax losses can be utilised:

- Except to the extent that the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting profit before tax nor taxable income (tax loss), and
- in the case of deductible temporary differences associated with investments in subsidiaries or associates and interests in joint ventures, deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilised.

The carrying amount of a deferred tax asset is reviewed as at the end of each reporting period and is reduced to the extent it is no longer probable that sufficient taxable income will be generated to allow the deferred tax asset to be realised in full or in part. As at the end of each reporting period, any unrecognised deferred tax asset is reassessed and recognised to the extent that it is probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax asset and deferred tax liability are calculated using tax rates expected to be effective at the time of realisation of the asset or liability, based on tax rates (and tax legislation) effective at the end of the reporting period or tax rates (and tax legislation) which at the reporting date are certain to be effective in the future.

Income tax on items posted directly to equity is recognised in equity rather than in profit or loss.

Deferred tax asset and deferred tax liability are offset by the Group if and only if has a legally enforceable right to offset current tax asset and income tax payable, and the deferred tax relates to the same tax payer and the same taxation authority.

9.28.3 Value added tax

Revenue, expenses, assets and liabilities are recognised net of VAT, except in the following cases:

- where the value added tax paid on the purchase of assets or services is not recoverable from the tax authorities; in such a case it is recognised in the cost of a given asset or as part of the cost item, and
- in the case of receivables and payables which are recognised inclusive of the VAT.

The net amount of the value added tax which is recoverable from or payable to tax authorities is carried in the statement of financial position under receivables or liabilities, as appropriate.

9.29. Earnings per share

Earnings per share for a reporting period are calculated by dividing the net profit attributable to owners of the parent for the period by the weighted average number of shares outstanding in the period.

Diluted earnings per share for a period are calculated as the quotient of net profit adjusted for changes in net profit attributable to holders of ordinary shares (net of interest on redeemable preference shares convertible into ordinary shares) and the weighted average number of ordinary shares outstanding in the period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares, including warrants under the management stock option plan).

9.30. Contingent assets and liabilities

A contingent liability is understood as an obligation to make a payment or provide a service which may arise upon the occurrence or non-occurrence of certain future events. Contingent liabilities are not recognised in the statement of financial position, however information on contingent liabilities is disclosed, unless the likelihood of the outflow of resources embodying economic benefits is negligible.

A contingent liability is:

- a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity;
- b) a present obligation that arises from past events but is not recognised in the financial statements because:
 - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.

Contingent receivables are not recognised in the statement of financial position, but information on them is disclosed if the inflow of resources embodying economic benefits is likely to occur.

9.31. Emission allowances

The Group recognises a provision for emission allowances if it has a deficit of allowances. A surplus of allowances received free of charge over actual emissions, if any, is recognised as an off-balance-sheet item.

9.32. Seasonality and cyclical nature of operations

The Group operates on the industrial power outsourcing market. Its key customers use the heat and electricity supplied by the Group mainly for production purposes at their industrial facilities, and this business is not subject to seasonal fluctuations. Wind conditions, which determine the output of wind farms, are uneven during the year: in autumn and winter they are significantly better than in spring and summer. The wind farm sites were selected by the Group based on professional wind measurements confirmed by independent and reputable specialists. That said, there can be no assurance that the actual wind conditions will not be different than those used in the Group's models for specific investment projects.

10. Adjusted EBITDA and adjusted net profit

EBITDA, adjusted EBITDA and adjusted net profit attributable to owners of the parent are not defined in the IFRSs and may be computed differently by other entities.

EBITDA AND ADJUSTED EBITDA

	For 6 months ended		For 3 months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Profit/(loss) before tax	6,434	(16,176)	1,212	(64,059)
Finance income	(5,000)	(5,669)	(1,619)	(4,492)
Finance costs	32,273	32,170	15,442	17,808
Depreciation and amortisation	48,927	56,182	24,420	29,440
Impairment loss on development projects	-	54,213	-	54,213
EBITDA	82,634	120,720	39,455	32,910
Purchase price allocation:				
Valuation of long-term contracts	(1,362)	(1,362)	(681)	(681)
Effect of sale of Zakrzów CHP Plant	-	(813)	-	(813)
Adjusted EBITDA	81,272	118,545	38,774	31,416

ADJUSTED NET PROFIT (LOSS) attributable to owners of the parent

	For 6 months ended		For 3 months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
NET PROFIT (LOSS) attributable to owners of the parent	#ARG!	(25,002)	#ARG!	(61,442)
Unrealised foreign exchange gains/losses	(829)	1,111	(15)	864
(Income)/costs from valuation of long-term bank borrowings	1,380	1,005	717	581
Impairment loss on development projects	-	54,213	-	54,213
Effect of sale of Zakrzów CHP Plant	-	(5,285)	-	(5,285)
Purchase price allocation:				
Depreciation and amortisation	5,064	5,064	2,532	2,532
Intra-Group long-term contracts	-	-	-	-
Valuation of long-term contracts	(1,362)	(1,362)	(681)	(681)
Tax	(702)	(702)	(351)	(351)
Adjusted NET PROFIT (LOSS) attributable to owners of the parent	#ARG!	29,042	#ARG!	(9,569)

EBITDA, ADJUSTED EBITDA and ADJUSTED NET PROFIT attributable to owners of the parent – performance metrics not defined in accounting standards

The Group presents its EBITDA, adjusted EBITDA and adjusted net profit attributable to owners of the parent in order to show its performance without the effect of factors that are unrelated to the Group's core operations and that lead to no cash flows in the reporting period.

EBITDA, adjusted EBITDA and adjusted net profit attributable to owners of the parent are not defined in the IFRSs and may be computed differently by other entities.

The Group defines EBITDA as profit before tax less finance income plus finance costs, plus depreciation and amortisation, plus impairment losses on non-financial non-current assets.

Adjusted EBITDA is determined by eliminating from EBITDA the effects of economic events that have no effect on the Group's core operations and that lead to no cash flows in the reporting period. These eliminations relate to:

- Accounting for the cost of acquisition as at the acquisition date (elimination of the gain recognised as at the acquisition date in connection with previously existing relations, elimination of the costs / income recognised in connection with accounting for **futures and forward** contracts recognised at fair value as at the acquisition date),
- Costs of financing other than debt financing at project companies,
- Operating result generated due to a change in the Group's strategy.

The Group defines adjusted net profit attributable to owners of the parent as net profit clear of the effects of the following economic events:

- Accounting for the cost of acquisition as at the acquisition date (elimination of depreciation/amortisation of adjustments made in connection with fair value measurement of acquired non-current assets, elimination of the gain recognised as at the acquisition date in connection with previously existing relations, elimination of the costs / income recognised in connection with accounting for **futures and forward** contracts recognised at fair value as at the acquisition date, including the effect of deferred tax on the above items),
- Effect of measurement of long-term receivables under wind farm sale transactions (discount),
- Net finance income/costs related to measurement of borrowings using the amortised cost method (the spreading over time of historically incurred commissions on financing obtained),
- Unrealised foreign exchange differences (this item was not taken into account for the purposes of the forecast),
- Costs of financing other than debt financing at project companies,
- Operating result generated due to a change in the Group's strategy,
- Effect of income tax on the economic events listed above.

In the six months ended June 30th 2017, when determining adjusted EBITDA and adjusted net profit, the Group eliminated the following transactions/ events:

- Effect of accounting for the cost of acquisition in connection with contribution of the Neutron Group assets in Q3 2014,
- Net finance income/costs related to measurement of borrowings using the amortised cost method (the spreading over time of historically incurred commissions on financing obtained) at the following companies: Amon Sp. z o.o., Talia Sp. z o.o., Grupa PEP Farma Wiatrowa 1 Sp. z o.o., Grupa PEP Farma Wiatrowa 4 Sp. z o.o., Grupa PEP Farma Wiatrowa 6 Sp. z

o.o., Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. and Polenergia Dystrybucja Sp. z o.o.

- Unrealised foreign exchange differences (item not taken into account for the purposes of the forecast),
- Effect of income tax on the economic events listed above.

11. Operating segments

For management purposes, the Group performed an analysis to identify operating segments, as a result of which it identified the following operating segments, corresponding to the reportable segments:

- wind power segment comprising the generation of electricity,
- conventional energy segment comprising the generation of electricity and heat,
- electricity and certificates of origin trading segment,
- distribution segment comprising the distribution and sale of electricity to commercial, industrial and household customers,
- biomass segment responsible for the production of pellets from energy crops,
- development and implementation segment comprising the development and construction of wind farms, a conventional power plant and a gas pipeline.

The Management Board monitors the respective segments' operating performance to make decisions on the allocation of resources, and evaluate the results of the allocation and the segments' operating performance. The basis for the evaluation is operating profit or loss before depreciation/amortisation, which is to a certain extent measured differently than the operating profit or loss in the consolidated financial statements, as indicated in the table below. Income tax is monitored at the Group level and is not allocated to the operating segments. Unallocated assets mainly comprise the Company's cash and the goodwill.

Prices used in transactions between the operating segments are determined on arm's length basis, as in the case of transactions with unrelated parties. All consolidation adjustments are allocated to the relevant segments.

Izba Rozliczeniowa Giełd Towarowych S.A. (the Warsaw Commodity Clearing House) is the only customer whose transactions with the Group have reached or exceeded 10% of the Group's total revenue. 99.9% of the segments' assets are located in Poland.

Polenergia Group

Interim condensed consolidated financial statements for the six months ended
June 30th 2017

(PLN '000)

For 6 months ended Jun 30 2017	Wind power	Conventional energy	Energy trading and sale	Distribution	Biomass	Development and implementation	Unallocated Group management costs *)	Total
Revenue from sales to external customers	65,228	133,980	#ARG!	43,189	15,898	4	#ARG!	#ARG!
Gross profit/(loss)	9,472	27,138	#ARG!	8,746	(1,249)	(142)	#ARG!	#ARG!
Administrative expenses	(1,851)	(2,986)	(4,739)	(3,059)	(581)	(188)	#ARG!	#ARG!
Interest income/(expense)	(24,149)	(868)	(452)	(803)	(125)	28	967	(25,402)
Finance income/(costs) from unrealised exchange gains/losses	1,286	(79)	(180)	-	(1)	(3)	-	1,023
Other finance income/(costs)	(2,699)	(234)	(743)	(71)	(97)	(21)	#ARG!	#ARG!
Other income/(expenses)	4,353	26	149	126	754	(192)	130	5,346
Profit/(loss) before tax	(13,588)	22,997	#ARG!	4,939	(1,299)	(518)	#ARG!	#ARG!
Income tax	-	-	-	-	-	-	(5,187)	(5,187)
Net profit/(loss)	-	-	-	-	-	-	-	#ARG!
EBITDA **)	40,536	34,937	#ARG!	7,989	823	(522)	#ARG!	#ARG!
Segment assets	1,403,140	297,921	180,548	129,433	65,990	289,619	-	2,366,651
Unallocated assets	-	-	-	-	-	-	384,366	384,366
Total assets	1,403,140	297,921	180,548	129,433	65,990	289,619	384,366	2,751,017

*) Including purchase price allocation and other unallocated items.

**) EBITDA is defined in Note 10.

Polenergia Group
Interim condensed consolidated financial statements for the six months ended
June 30th 2017
(PLN '000)

For 6 months ended Jun 30 2016	Wind power	Conventional energy	Energy trading and sale	Distribution	Biomass	Development and implementation	Unallocated Group management costs *)	Total
Revenue from sales to external customers	81,305	142,137	1,045,626	65,304	27,523	4	4,595	1,366,494
Gross profit/(loss)	24,677	43,760	2,013	12,163	3,255	(341)	(4,472)	81,055
Administrative expenses	(3,633)	(3,577)	(4,721)	(2,453)	(1,244)	(589)	(3,252)	(19,469)
Interest income/(expense)	(22,056)	(3,012)	(63)	(761)	(191)	78	1,287	(24,718)
Finance income/(costs) from unrealised exchange gains/losses	(1,324)	43	-	-	(1)	(89)	-	(1,371)
Other finance income/(costs)	(3,160)	(288)	(614)	(25)	(245)	(50)	3,970	(412)
Other income/(expenses)	2,110	(597)	179	93	346	(54,242)	850	(51,261)
Profit/(loss) before tax	(3,386)	36,329	(3,206)	9,017	1,920	(55,233)	(1,617)	(16,176)
Income tax	-	-	-	-	-	-	(8,871)	(8,871)
Net profit/(loss)	-	-	-	-	-	-	-	(25,047)
EBITDA **)	59,541	49,382	(2,509)	11,878	4,354	(959)	(967)	120,720
Segment assets	1,523,530	350,537	249,628	131,022	69,756	332,720	-	2,657,193
Unallocated assets	-	-	-	-	-	-	436,954	436,954
Total assets	1,523,530	350,537	249,628	131,022	69,756	332,720	436,954	3,094,147

*) Including purchase price allocation.

**) EBITDA is defined in Note 10.

12. Earnings per share

Basic earnings per share are calculated as the quotient of net profit attributable to holders of ordinary shares in the Group and the weighted average number of ordinary shares outstanding in the period.

Diluted earnings per share are calculated as the quotient of net profit attributable to holders of ordinary shares (net of interest on redeemable preference shares convertible into ordinary shares) and the weighted average number of ordinary shares outstanding in the period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares, including warrants under the management stock option plan).

Presented below is data on the net profit and shares used to calculate basic and diluted earnings per share:

	For 6 months ended	
	Jun 30 2017	Jun 30 2016
Net profit/(loss)	1,247	(25,002)
Weighted average number of ordinary shares	45,443,547	45,443,547
Earnings (loss) per ordinary share (PLN)	0.03	(0.55)
	For 6 months ended	
	Jun 30 2017	Jun 30 2016
Weighted average number of ordinary shares	45,443,547	45,443,547
Dilutive effect	-	-
Diluted weighted average number of ordinary shares	45,443,547	45,443,547

13. Intangible assets

Jun 30 2017	development work	acquired permits, patents, licences and similar assets, including: software	prepayment s for intangible assets	intangible assets related to purchase price allocation	total intangible assets	
1. Gross intangible assets at beginning of period	865	6,805	97	1	58,000	65,671
a) increase, including:	-	729	612	39	-	768
- acquisition	-	76	-	39	-	115
- other	-	653	612	-	-	653
b) decrease, including:	-	(10)	-	(40)	-	(50)
- sale and retirement	-	(10)	-	-	-	(10)
- transfer	-	-	-	(40)	-	(40)
2. Gross intangible assets at end of period	865	7,524	709	-	58,000	66,389
3. Cumulative depreciation at beginning of period	(640)	(2,547)	84	-	(23,016)	(26,203)
- amortisation for current period	(44)	(446)	(27)	-	(4,932)	(5,422)
- decrease, including:	-	10	-	-	-	10
- sale and retirement	-	10	-	-	-	10
4. Cumulative depreciation at end of period	(684)	(2,983)	57	-	(27,948)	(31,615)
5. Impairment losses at beginning of period	-	-	-	-	-	-
- increase	-	-	-	-	-	-
- decrease	-	-	-	-	-	-
6. Impairment losses at end of period	-	-	-	-	-	-
7. Net intangible assets at beginning of period	225	4,258	181	1	34,984	39,468
8. Net intangible assets at end of period	181	4,541	766	-	30,052	34,774

Dec 31 2016	development work	acquired permits, patents, licences and similar assets, including: software	prepayment s for intangible assets	intangible assets related to purchase price allocation	total intangible assets	
1. Gross intangible assets at beginning of period	865	6,091	287	-	58,000	64,956
a) increase, including:	-	743	-	30	-	773
- acquisition	-	280	-	30	-	310
- other	-	463	-	-	-	463
b) decrease, including:	-	(29)	(190)	(29)	-	(58)
- sale and retirement	-	(29)	(19)	-	-	(29)
- transfer	-	-	(171)	(29)	-	(29)
2. Gross intangible assets at end of period	865	6,805	97	1	58,000	65,671
3. Cumulative amortisation at beginning of period	(559)	(1,776)	(270)	-	(13,152)	(15,487)
- amortisation for current period	(85)	(800)	(1)	-	(9,864)	(10,749)
- decrease, including:	2	29	187	-	-	31
- sale and retirement	-	29	19	-	-	29
- transfer	2	-	168	-	-	2
4. Cumulative amortisation at end of period	(640)	(2,547)	84	-	(23,016)	(26,203)
5. Impairment losses at beginning of period	-	-	-	-	-	-
- increase	-	-	-	-	-	-
- decrease	-	-	-	-	-	-
6. Impairment losses at end of period	-	-	-	-	-	-
7. Net intangible assets at beginning of period	306	4,315	17	-	44,848	49,469
8. Net intangible assets at end of period	225	4,258	181	1	34,984	39,468

14. Goodwill

	Jun 30 2017	Dec 31 2016
- Dipol Sp. z o.o.	132	132
- Mercury Energia Sp. z o.o. i Wspólnicy, Sp. Komandytowa	437	437
- Amon Sp. z o.o.	85	85
- Talia Sp. z o.o.	56	56
- Neutron Group	183,777	183,777
- Other	126	138
Total goodwill	184,613	184,625

	Jun 30 2017	Dec 31 2016
Consolidation goodwill at beginning of period	184,625	184,662
- Increase (decrease) in consolidation goodwill	(12)	(37)
Total goodwill	184,613	184,625

Following the transfer of the Neutron Group's assets onto the Group, goodwill amounted to PLN 184m and was attributable to the following cash-generating units (segments):

- (i) PLN 75m – development segment – comprising Polenergia Bałtyk I, Polenergia Bałtyk II and Polenergia Bałtyk III;
- (ii) PLN 40m – conventional energy segment – comprising Polenergia Elektrociepłownia Nowa Sarzyna;
- (iii) PLN 25m – distribution segment – comprising Polenergia Dystrybucja and Polenergia Kogeneracja;
- (iv) PLN 44m – trading segment – comprising Polenergia Obrót.

As at June 30th 2017, the Group found no indications of goodwill impairment.

15. Property, plant and equipment

Jun 30 2017	land	buildings and structures	plant and equipment	vehicles	other property, plant and equipment	property, plant and equipment under construction	prepayments for property, plant and equipment under construction	total property, plant and equipment
1. Gross property, plant and equipment at beginning of period	7,797	587,606	1,402,300	5,202	1,114	442,656	13,146	2,459,821
a) increase, including:	-	104	983	273	10	19,313	-	20,683
- acquisition	-	-	669	273	1	11,816	-	12,759
- transfer	-	104	314	-	9	7,497	-	7,924
b) decrease, including:	-	(325)	(980)	(289)	(143)	(31,707)	(11,547)	(44,991)
- sale and retirement	-	(325)	(435)	(289)	(11)	-	-	(1,060)
- other	-	-	100	-	(132)	(31,243)	(4,050)	(35,325)
- transfer	-	-	(645)	-	-	(464)	(7,497)	(8,606)
2. Gross property, plant and equipment at end of period	7,797	587,385	1,402,303	5,186	981	430,262	1,599	2,435,513
3. Cumulative depreciation at beginning of period	-	(71,470)	(223,287)	(2,991)	134	(107)	-	(297,721)
- amortisation for current period	-	(11,423)	(31,639)	(515)	(66)	138	-	(43,505)
- decrease, including:	-	26	267	377	26	-	-	696
- sale and retirement	-	26	267	377	8	-	-	678
- transfer	-	-	-	-	18	-	-	18
4. Cumulative depreciation at end of period	-	(82,867)	(254,659)	(3,129)	94	31	-	(340,530)
5. Impairment losses at beginning of period	-	(20,062)	(55,207)	-	-	(87,126)	-	(162,395)
- increase	-	-	-	-	-	(172)	-	(172)
- decrease	-	-	-	-	-	-	-	-
6. Impairment losses at end of period	-	(20,062)	(55,207)	-	-	(87,298)	-	(162,567)
7. Net property, plant and equipment at beginning of period	7,797	496,074	1,123,806	2,211	1,248	355,423	13,146	1,999,706
8. Net property, plant and equipment at end of period	7,797	484,456	1,092,437	2,057	1,075	342,995	1,599	1,932,417

In the six months ended June 30th 2017, the Group did not incur borrowing costs qualifying for capitalisation under initial value of property, plant and equipment. As at June 30th 2017, land and buildings worth PLN 484,458 thousand were encumbered with mortgages securing the repayment of credit facilities.

The carrying amount of vehicles used under lease agreements as at June 30th 2017 was PLN 1,478 thousand.

On April 21st 2017, one of the Mycielin Wind Farm turbines broke apart and collapsed, scattering debris on the ground in the immediate vicinity of the turbine. The event did not cause any injuries to persons or damage to third-party property. In connection with the incident at the Mycielin Wind Farm, Polenergia, acting jointly with the relevant services and the technology supplier and guarantor (Vestas), took measures to secure the scene of the event. The wind turbine failure did not cause any injuries to persons or damage to third-party property. In order to eliminate the likelihood of any further similar events, the Company instructed Vestas, the manufacturer of the wind turbines, to check the safety of the other turbines. To note, the damaged wind turbine is under warranty from Vestas and Vestas are fully responsible for the maintenance of the wind turbines in the Mycielin Wind Farm. As the expert evaluation has not been completed yet, no decision has been made as to whether to rebuild the damaged turbine or to demand reimbursement of its cost.

Polenergia Group

Interim condensed consolidated financial statements for the six months ended
June 30th 2017

(PLN '000)

Because the Mycielin Wind Farm is not fully operational, Vestas was – in accordance with the relevant agreement – charged with an amount of PLN 2,236 thousand as at June 30th 2017. The amount is disclosed under other income (Note 32).

Dec 31 2016	land	buildings and structures	plant and equipment	vehicles	other property, plant and equipment	property, plant and equipment under construction	prepayments for property, plant and equipment under construction	total property, plant and equipment
1. Gross property, plant and equipment at beginning of period	7,797	486,170	1,168,526	6,719	1,842	727,677	9,209	2,407,940
a) increase, including:	-	109,095	239,325	564	99	28,492	4,071	381,646
- acquisition	-	2,618	46,495	500	27	31,203	2,891	83,734
- transfer	-	106,477	192,830	64	72	(2,711)	1,180	297,912
b) decrease, including:	-	(7,659)	(5,551)	(2,081)	(827)	(313,513)	(134)	(329,765)
- sale and retirement	-	(7,411)	(4,379)	(1,617)	(186)	(14,873)	-	(28,466)
- other (including finance lease)	-	(248)	(140)	(464)	(635)	(53)	-	(1,540)
- transfer	-	-	(1,032)	-	(6)	(298,587)	(134)	(299,759)
2. Gross property, plant and equipment at end of period	7,797	587,606	1,402,300	5,202	1,114	442,656	13,146	2,459,821
3. Cumulative depreciation at beginning of period	-	(43,232)	(158,070)	(3,103)	(164)	(263)	-	(204,832)
- depreciation for current period	-	(27,523)	(75,595)	(1,356)	(133)	-	-	(104,607)
- decrease, including:	-	(715)	10,378	1,468	431	156	-	10,699
- sale and retirement	-	5,198	3,361	1,008	186	-	-	9,753
- other (including finance lease)	-	248	-	464	234	-	-	946
- transfer	-	(6,161)	7,017	(4)	11	156	-	1,019
4. Cumulative depreciation at end of period	-	(71,470)	(223,287)	(2,991)	134	(107)	-	(297,721)
5. Impairment losses at beginning of period	-	(810)	(1,015)	-	-	(9,066)	-	(10,891)
- increase	-	(19,718)	(55,207)	-	-	(78,288)	-	(153,213)
- decrease	-	466	1,015	-	-	228	-	1,709
6. Impairment losses at end of period	-	(20,062)	(55,207)	-	-	(87,126)	-	(162,395)
7. Net property, plant and equipment at beginning of period	7,797	442,128	1,009,441	3,616	1,678	718,348	9,209	2,192,217
8. Net property, plant and equipment at end of period	7,797	496,074	1,123,806	2,211	1,248	355,423	13,146	1,999,706

In the year ended December 31st 2016, the Group incurred borrowing costs qualifying for capitalisation under initial value of property, plant and equipment, totalling PLN 1,908 thousand. As at December 31st 2016, land and buildings worth PLN 490,762 thousand were encumbered with mortgages securing the repayment of credit facilities. The carrying amount of vehicles used under lease agreements as at December 31st 2016 was PLN 1,500 thousand.

16. Non-current receivables

	Jun 30 2017	Dec 31 2016
- finance lease	2,704	2,854
- other receivables	1,986	1,986
Long-term receivables, net	4,690	4,840

17. Non-current financial assets

	Jun 30 2017	Dec 31 2016
- shares in non-listed companies	187	336
- loans advanced	#ARG!	469
- long-term contracts	11,140	11,519
Total non-current financial assets	#ARG!	12,324

18. Inventories

	Jun 30 2017	Dec 31 2016
- materials and merchandise	10,857	17,478
- certificates of origin	16,995	23,105
- property rights	26	489
- prepaid deliveries	32	412
Total inventories, net	27,910	41,484
inventory write-downs	1,746	98
Total inventories, gross	29,656	41,582

19. Short-term receivables

	Jun 30 2017	Dec 31 2016
- trade receivables	100,281	149,494
- to related entities	4,877	5,634
- from other entities	95,404	143,860
- income tax receivable	1,641	6,079
- other receivables	33,301	20,126
- to the state budget	15,239	15,071
- finance lease	315	308
- other	17,747	4,747
Total current receivables, net	135,223	175,699
- impairment losses on receivables	2,385	2,281
Total short-term receivables, gross	137,608	177,980

For information on related-party transactions, see Note 41.

Trade receivables bear no interest and are typically payable within 7–45 days.

As at June 30th 2017, impairment losses on trade receivables rose to PLN 2,385 thousand from PLN 2,281 thousand as at December 31st 2016. Changes in impairment losses on trade receivables were as follows:

	Jun 30 2017	Dec 31 2016
At beginning of period	2,281	7,779
- Increase	50	382
- Use	(2)	(173)
- Reversal	56	(5,707)
At end of period	2,385	2,281

Below is an analysis of trade receivables that were past due as at June 30th 2017 and December 31st 2016, but not deemed unrecoverable. Other receivables are not past due.

	Total	Not past due	Less than 30 days	Past due but recoverable			Over 120 days
				30–60 days	60–90 days	90–120 days	
Jun 30 2017	100,281	95,472	3,219	842	134	56	558
Dec 31 2016	149,494	145,445	2,637	251	88	68	1,005

20. Current prepayments and accrued income

	Jun 30 2017	Dec 31 2016
- insurance	1,457	3,572
- subscriptions	29	16
- wind turbine maintenance	1,104	1,076
- property tax, perpetual usufruct charges, lease payments	6,544	41
- accrued income	228	287
- accrued commissions	3	106
- other	2,306	970
Total prepayments and accrued income	11,671	6,068

21. Current financial assets

	Jun 30 2017	Dec 31 2016
- loans advanced	3,272	2,919
- valuation of futures and forward contracts	61,001	96,624
Total current financial assets	64,273	99,543

Futures and forward contracts to buy or sell electricity entered into by Polenergia Obrót S.A., a subsidiary, are classified as derivatives and are accounted for in accordance with standards applicable to derivative instruments. Accordingly, such contracts are measured at fair value, with changes in fair value recognised in profit or loss. Valuation gains and losses are presented on a net basis and recognised under revenue or cost of sales, as appropriate. Valuation is performed with respect to the outstanding part of the contracts, which is broken down into current portion (to be settled within 12 months from the reporting date), and non-current portion (to be settled in subsequent years).

	For 6 months ended	
	Jun 30 2017	Jun 30 2016
Gain/(loss) on valuation of derivatives	(3,746)	(2,352)

	Jun 30 2017	Dec 31 2016
Current assets	61,001	96,624
Non-current assets	11,140	11,519
Total	72,141	108,143

	Jun 30 2017	Dec 31 2016
Current liabilities	52,788	85,584
Non-current liabilities	5,718	5,718
Total	58,506	91,302

The table below includes information on financial assets and liabilities which the Group measures at fair value and classifies at specific levels of the fair value hierarchy:

- Level 1 – quoted prices in active markets for identical assets or liabilities (not adjusted),
- Level 2 – inputs other than quoted market prices included within Level 1 that are observable for the asset or liability in active markets,
- Level 3 – unobservable inputs for the asset or liability.

Derivatives are pairs of **futures or forward** contracts (long and short positions) entered into on stock exchanges for speculative purposes. They are measured on the basis of a model using market parameters, i.e. the market price of the instrument discounted using interest rates (Level 2). The effect of unobservable inputs, if any, on the valuation of derivatives was negligible.

Class of financial instrument

Jun 30 2017	Level 2	Total
Current assets	61,001	61,001
Non-current assets	11,140	11,140
Total	72,141	72,141

Jun 30 2017	Level 2	Total
Current liabilities	52,788	52,788
Non-current liabilities	5,718	5,718
Total	58,506	58,506

Net fair value	13,635	13,635
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The table below presents the sensitivity of profit/loss to potential movements in market prices of electricity and gas. The calculation was performed with respect to **futures and forward** contracts to buy or sell electricity, classified as derivatives measured at fair value.

Effect on profit/loss	Jun 30 2017	Jun 30 2016
Market price increase +1%	156	193
Market price decrease -1%	(137)	(199)

22. Cash and cash equivalents

	Jun 30 2017	Dec 31 2016
Cash and cash equivalents	319,167	380,862
- cash in hand and at banks	319,167	380,862
Total cash and cash equivalents	319,167	380,862

As at June 30th 2017, restricted cash of PLN 82,192 thousand was held in blocked bank accounts as security for repayment of credit facilities (2016: PLN 114,082 thousand).

Cash at banks earns interest at floating rates linked to interest rates for overnight deposits. Current deposits are placed for various periods, from one day to one month, depending on the Group's immediate cash requirement, and earn interest at agreed interest rates.

23. Share capital and statutory reserve funds/capital reserves

23.1 Share capital

Jun 30 2017

Series/issue	Type of shares	Number of shares	Par value of series/issue
A	bearer	2,213,904	4,428
B	bearer	2,304,960	4,610
C	bearer	515,256	1,031
D	bearer	566,064	1,132
E	bearer	1,338,960	2,678
F	bearer	544,800	1,090
G	bearer	683,376	1,367
H	bearer	288,000	576
I	bearer	856,704	1,713
J	bearer	3,835,056	7,670
K	bearer	1,640,688	3,281
L	bearer	3,144,624	6,289
M	bearer	182,359	365
N	bearer	69,922	140
O	bearer	70,908	142
P	bearer	89,500	179
R	bearer	37,560	75
S	bearer	147,026	294
U	bearer	125,300	251
W	bearer	143,200	286
T	bearer	945,800	1,891
Y	bearer	1,570,000	3,140
Z	bearer	24,129,580	48,259
Total number of shares		45,443,547	
Total share capital			90,887
Par value per share (PLN)			2

Dec 31 2016

Series/issue	Type of shares	Number of shares	Par value of series/issue
A	bearer	2,213,904	4,428
B	bearer	2,304,960	4,610
C	bearer	515,256	1,031
D	bearer	566,064	1,132
E	bearer	1,338,960	2,678
F	bearer	544,800	1,090
G	bearer	683,376	1,367
H	bearer	288,000	576
I	bearer	856,704	1,713
J	bearer	3,835,056	7,670
K	bearer	1,640,688	3,281
L	bearer	3,144,624	6,289
M	bearer	182,359	365
N	bearer	69,922	140
O	bearer	70,908	142
P	bearer	89,500	179
R	bearer	37,560	75
S	bearer	147,026	294
U	bearer	125,300	251
W	bearer	143,200	286
T	bearer	945,800	1,891
Y	bearer	1,570,000	3,140
Z	bearer	24,129,580	48,259
Total number of shares		45,443,547	
Total share capital			90,887
Par value per share (PLN)			2

Shares of all series carry equal rights.

23.2 Significant shareholders

Shareholders holding 5% or more of the total number of shares as at June 30th 2017:

No.	Shareholder	Number of shares	Number of voting rights	% interest
1	Kulczyk Investment S.A.*	22,811,757	22,811,757	50.20%
2	China - Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF**	7,266,122	7,266,122	15.99%
3	Nationale-Nederlanden	2,576,969	2,576,969	5.67%
4	Generali OFE	2,943,731	2,943,731	6.48%
5	Aviva OFE	3,060,872	3,060,872	6.74%
6	Other	6,784,096	6,784,096	14.93%
	Total	45,443,547	45,443,547	100.00%

* Through Mansa Investments Sp. z o.o., a subsidiary.

** Through Capedia Holdings Limited of Nicosia, Cyprus, a subsidiary.

23.3 Other capital reserves

Other capital reserves have been accumulated through contributions from profits generated in previous financial years and recognition of an upward revaluation of derivatives hedging future cash flows (for further information on the hedges, see Note 39).

23.4 Undistributed profit and limitations on dividend payment

Under the Polish Commercial Companies Code, the parent is required to create statutory reserve funds to cover losses. After each financial year, at least 8% of net profit disclosed in the separate financial statements of the parent should be contributed to statutory reserve funds, until the funds reach at least one-third of the parent's share capital. While it is the General Meeting that resolves how to use statutory reserve funds and capital reserves, a part of statutory reserve funds equal to one-third of the share capital, i.e. PLN 30,296 thousand, may be used exclusively to cover a loss disclosed in separate financial statements and may not be used for any other purposes. The 2016 loss was covered from statutory reserve funds, i.e. from share premium.

23.5 Non-controlling interests

	Jun 30 2017	Dec 31 2016
At beginning of period	902	953
- share in profit of subsidiaries	-	(51)
At end of period	902	902

23.6 Dividends paid and proposed

In the six months to June 30th 2017, the parent did not pay dividends and no dividends are expected to be paid by the parent in H2 2017.

24. Income tax

	For 6 months ended		For 3 months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Current income tax	1,087	3,047	803	117
Current income tax expense	1,092	3,604	803	674
Adjustments to current income tax from previous years	(5)	(557)	-	(557)
Deferred income tax	4,100	5,824	745	(2,702)
Related to temporary differences and their reversal	4,100	5,824	745	(2,702)
Tax expense recognised in profit or loss	5,187	8,871	1,548	(2,585)

	For 6 months ended	
	Jun 30 2017	Jun 30 2016
Tax expense recognised in profit or loss, including:	5,187	8,871
Current income tax	1,087	3,047
Deferred tax	4,100	5,824
Profit before tax	6,424	(16,176)
Tax expense at the effective rate of 19% (2016: 19%)	1,221	(3,073)
Adjustments to current income tax from previous years	(5)	(557)
Non-tax-deductible costs:	3,971	12,590
- permanent differences	340	(1,174)
- tax assets on account of tax losses in Special Economic Zone	392	(282)
- tax asset on account of other tax losses	3,239	14,046
Non-taxable income:	-	(89)
- other	-	(89)
Tax recognised in profit or loss	5,187	8,871

25. Provisions

	Jun 30 2017	Dec 31 2016
Long-term provisions		
- provision for retirement and similar benefits	1,081	1,081
- provisions for litigation	23,182	24,544
Total long-term provisions	24,263	25,625

Short-term provisions

- provision for retirement and similar benefits	14	17
- provision for accrued holiday entitlements	1,350	1,208
- provision for litigation and grid losses	1,799	1,722
Total short-term provisions	3,163	2,947

Change in long- and short-term provisions

	Jun 30 2017	Dec 31 2016
Provisions at beginning of period	28,572	6,423
- provisions recognised	155	24,660
- provisions reversed	(1,301)	(2,511)
Provisions at end of period	27,426	28,572

26. Liabilities under bank and other borrowings

Jun 30 2017

Bank	Borrower	Non-current liability	Current liability	Interest rate	Maturity date	Security
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	29,890	36,815	3M WIBOR + margin	Apr 2019	Mortgage over property, pledge over assets, pledge over shares in the Borrower, statement on voluntary submission to enforcement
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	220	881	3M WIBOR + margin	Jul 2018	Mortgage over property, pledge over assets, pledge over shares in the Borrower, statement on voluntary submission to enforcement
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	-	10,200	3M WIBOR + margin	Jul 29 2017	Mortgage over property, pledge over assets, pledge over shares in the Borrower, statement on voluntary submission to enforcement
ING Bank Śląski S.A.	Polenergia Kogeneracja Sp. z o.o.	35,690	2,203	1M WIBOR + margin	Jan 31 2017	Assignment of claims under project contracts
Raiffeisen Bank Polska S.A.	Dipol Sp. z o.o.	19,517	6,870	1M EURIBOR + margin	Dec 31 2021	Mortgage over property, registered pledge over assets, pledge over shares in the Borrower, powers of attorney over bank accounts, assignment of claims under project contracts, block on funds in the special-purpose reserve account EUR denominated facility
MBANK S.A.	Grupa PEP - Biomasa Energetyczna Południe Sp. z o.o.	424	849	1M WIBOR + margin	Dec 20 2018	Mortgage over property, registered pledge over assets, pledge over shares in the Borrower, assignment of claims under project contracts, subordination of Polenergia S.A.'s claims to Lender's claims, block on funds in the special-purpose reserve account, surety of up to PLN 7,800 thousand issued by Polenergia S.A., statement on voluntary submission to enforcement
Bank syndicate (Raiffeisen Bank Polska S.A., PKO BP S.A., BZ WBK S.A., DNB NORD S.A.)	Amon Sp. z o.o.	-	116,706	3M WIBOR + margin	Dec 31 2026	Registered pledge over assets, pledge over shares in the Borrower and Talia Sp. z o.o., conditional assignment of claims under project contracts, block on funds in the special-purpose reserve account, surety of up to PLN 6,758 thousand issued by Polenergia S.A. (jointly with Talia Sp. z o.o.), mutual surety of up to PLN 312,739.5 thousand issued by Talia Sp. z o.o., subordination of Polenergia S.A.'s claims to Lender's claims, statement on voluntary submission to enforcement
Bank syndicate (Raiffeisen Bank Polska S.A., PKO BP S.A., BZ WBK S.A., DNB NORD S.A.)	Talia Sp. z o.o.	-	73,256	3M WIBOR + margin	Dec 31 2026	Registered pledge over assets, pledge over shares in the Borrower and Amon Sp. z o.o., conditional assignment of claims under project contracts, block on funds in the special-purpose reserve account, surety of up to PLN 6,758 thousand issued by Polenergia S.A. (jointly with Amon Sp. z o.o.), mutual surety of up to PLN 227,440.50 thousand issued by Amon Sp. z o.o., subordination of Polenergia S.A.'s claims to Lender's claims, statement on voluntary submission to enforcement
PEKAO S.A.	Grupa PEP - Biomasa Energetyczna Wschód Sp. z o.o.	5,250	1,013	1M WIBOR + margin	Sep 30 2022	Mortgage over property, registered pledge over assets, pledge over shares in the Borrower, assignment of claims under project

Polenergia Group
Interim condensed consolidated financial statements for the six months ended
June 30th 2017
(PLN '000)

Jun 30 2017						
Bank	Borrower	Non-current liability	Current liability	Interest rate	Maturity date	Security
						contracts, powers of attorney over bank accounts, statement on voluntary submission to enforcement
European Bank for Reconstruction and Development	Grupa PEP - Farma Wiatrowa 1 Sp. z o.o.	149,576	9,585	3M WIBOR + margin	Mar 31 2029	Mortgage over property, registered pledge over assets, pledge over shares in the Borrowers, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
Bank syndicate (EBRD, BOŚ S.A.)	Grupa PEP - Farma Wiatrowa 4 Sp. z o.o.	247,711	14,285	3M WIBOR + margin	Jun 29 2029	Mortgage over property, registered pledge over assets, pledge over shares in the Borrowers, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
European Bank for Reconstruction and Development	Grupa PEP - Farma Wiatrowa 6 Sp. z o.o.	77,017	4,644	3M WIBOR + margin	Mar 31 2029	Mortgage over property, registered pledge over assets, pledge over shares in the Borrowers, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
Bank syndicate (EBRD, BOŚ S.A., Bank of China, ALIOR BANK S.A.)	Polenergia Farma Wiatrowa Mycielin Sp. z o.o.	200,354	12,681	3M WIBOR + margin	Sep 15 2029	Mortgage over property, registered pledge over assets, pledge over shares in the Borrower, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
Total		765,649	289,988			

Polenergia Group

Interim condensed consolidated financial statements for the six months ended
June 30th 2017

(PLN '000)

Dec 31 2016

Bank	Borrower	Non-current liability	Current liability	Interest rate	Maturity date	Security
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	48,297	36,767	3M WIBOR + margin	Apr 2019	Mortgage over property, pledge over assets, pledge over shares in the Borrower, statement on voluntary submission to enforcement
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	660	882	3M WIBOR + margin	Jul 2018	Mortgage over property, pledge over assets, pledge over shares in the Borrower, statement on voluntary submission to enforcement
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	-	12,104	3M WIBOR + margin	Jul 29 2017	Mortgage over property, pledge over assets, pledge over shares in the Borrower, statement on voluntary submission to enforcement
ING Bank Śląski S.A.	Polenergia Kogeneracja Sp. z o.o.	-	-	1M WIBOR + margin	Jan 31 2017	Assignment of claims under project contracts
PEKAO S.A.	Polenergia Obrót S.A.	-	-	1M WIBOR + margin	Aug 18 2016	Assignment of claims under sale agreements, powers of attorney over bank accounts, statement on voluntary submission to enforcement
ING Bank Śląski S.A.	Polenergia Dystrybucja Sp. z o.o.	34,702	1,707	3M WIBOR + margin	Nov 20 2024	Pledge over assets, pledge over shares in the Borrower, statement on voluntary submission to enforcement
ING Bank Śląski S.A.	Polenergia Dystrybucja Sp. z o.o.	-	-	1M WIBOR + margin	Nov 20 2016	Pledge over assets, pledge over shares in the Borrower, statement on voluntary submission to enforcement
Raiffeisen Bank Polska S.A.	Dipol Sp. z o.o.	24,214	6,547	1M EURIBOR + margin	Dec 31 2021	Mortgage over property, registered pledge over assets, pledge over shares in the Borrower, powers of attorney over bank accounts, assignment of claims under project contracts, block on funds in the special-purpose reserve account EUR denominated facility
MBANK S.A.	Grupa PEP - Biomasa Energetyczna Południe Sp. z o.o.	849	849	1M WIBOR + margin	Dec 20 2018	Mortgage over property, registered pledge over assets, pledge over shares in the Borrower, assignment of claims under project contracts, subordination of Polenergia S.A.'s claims to Lender's claims, block on funds in the special-purpose reserve account, surety of up to PLN 7,800 thousand issued by Polenergia S.A., statement on voluntary submission to enforcement
Bank syndicate (Raiffeisen Bank Polska S.A., PKO BP S.A., BZ WBK S.A., DNB NORD S.A.)	Amon Sp. z o.o.	-	120,095	3M WIBOR + margin	Dec 31 2026	Registered pledge over assets, pledge over shares in the Borrower and Talia Sp. z o.o., conditional assignment of claims under project contracts, block on funds in the special-purpose reserve account, surety of up to PLN 6,758 thousand issued by Polenergia S.A. (jointly with Talia Sp. z o.o.), mutual surety of up to PLN 312,739.5 thousand issued by Talia Sp. z o.o., subordination of Polenergia S.A.'s claims to Lender's claims, statement on voluntary submission to enforcement
Bank syndicate (Raiffeisen Bank Polska S.A., PKO BP S.A., BZ WBK S.A., DNB NORD S.A.)	Talia Sp. z o.o.	-	75,643	3M WIBOR + margin	Dec 31 2026	Registered pledge over assets, pledge over shares in the Borrower and Amon Sp. z o.o., conditional assignment of claims under project contracts, block on funds in the special-purpose reserve account, surety of up to PLN 6,758 thousand issued by Polenergia S.A. (jointly with Amon Sp. z o.o.), mutual surety of up to PLN

Polenergia Group
Interim condensed consolidated financial statements for the six months ended
June 30th 2017
(PLN '000)

Dec 31 2016						
Bank	Borrower	Non-current liability	Current liability	Interest rate	Maturity date	Security
						227,440.50 thousand issued by Amon Sp. z o.o., subordination of Polenergia S.A.'s claims to Lender's claims, statement on voluntary submission to enforcement
PEKAO S.A.	Grupa PEP - Biomasa Energetyczna Wschód Sp. z o.o.	5,766	975	1M WIBOR + margin	Sep 30 2022	Mortgage over property, registered pledge over assets, pledge over shares in the Borrower, assignment of claims under project contracts, powers of attorney over bank accounts, statement on voluntary submission to enforcement
European Bank for Reconstruction and Development	Grupa PEP - Farma Wiatrowa 1 Sp. z o.o.	160,259	9,257	3M WIBOR + margin	Jun 29 2029	Mortgage over property, registered pledge over assets, pledge over shares in the Borrowers, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
Bank syndicate (EBRD, BOŚ S.A.)	Grupa PEP - Farma Wiatrowa 4 Sp. z o.o.	256,503	13,768	3M WIBOR + margin	Jun 29 2029	Mortgage over property, registered pledge over assets, pledge over shares in the Borrowers, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
European Bank for Reconstruction and Development	Grupa PEP - Farma Wiatrowa 6 Sp. z o.o.	82,387	4,818	3M WIBOR + margin	Jun 29 2029	Mortgage over property, registered pledge over assets, pledge over shares in the Borrowers, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
Bank syndicate (EBRD, BOŚ S.A., Bank of China, ALIOR BANK S.A.)	Polenergia Farma Wiatrowa Mycielin Sp. z o.o.	206,761	12,843	3M WIBOR + margin	Sep 15 2029	Mortgage over property, registered pledge over assets, pledge over shares in the Borrower, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
Total		820,398	296,255			

Defaults under credit facility agreements since the last annual reporting date

- a) Amon Sp. z o.o. ("Amon") and Talia Sp. z o.o. ("Talia", jointly the "Companies") are parties – as Sellers – to the following agreements:
1. Agreements on sale of electricity generated in a renewable energy source, dated December 23rd 2009 (the "PPA Agreements"), and
 2. Agreements on sale of property rights incorporated in certificates of origin for electricity generated in a renewable energy source, dated December 23rd 2009 (the "CPA Agreements"),

under which Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. w likwidacji (in liquidation) ("PKH") is the other party (the Buyer).

PKH took certain steps with a view to discontinuing the performance of the CPA Agreements and PPA Agreements. Specifically, on March 18th 2015, PKH submitted notices of termination with respect to the CPA Agreements and the PPA Agreements, and ceased to perform the agreements. In the Companies' opinion, the notices have no legal effect and thus the CPA Agreements and PPA Agreements should continue to be performed. Therefore, they took steps available under law to protect their interests and to reinstate the full force and effect of the Agreements, and also to obtain compensation for the losses they have suffered.

In connection with the now completed projects consisting in construction of the Łukaszów Wind Farm and the Modlikowice Wind Farm, the Companies are parties (as Borrowers) to the Credit Facilities Agreement dated June 1st 2010 (the "Credit Facilities Agreement"). Since currently PKH is not performing the PPA Agreements and the CPA Agreements, the Companies failed to comply with the contractual financial covenants as at June 30th 2017, which is an Event of Default under the Credit Facilities Agreement.

The credit facilities were disclosed in current liabilities in compliance with IAS 1, stipulating that if, as at the reporting date, an entity does not have an unconditional right to defer a liability for at least 12 months as of the reporting date, such liability is to be classified as current. Notwithstanding the foregoing, the credit facilities continued to be repaid on schedule. As at the date of these financial statements, the syndicate refrained from exercising any of the rights available to it in the case of occurrence of an event of default under the credit facilities agreement.

Under Annex No. 5 to the credit facilities agreement dated November 20th 2015, the companies and the syndicate agreed to enter into negotiations in good faith with a view to making long-term arrangements that would comprehensively govern the mutual relations between the companies and the syndicate in connection with the non-performance of the PPA Agreements and the CPA Agreements by PKH, which will ultimately lead to executing a relevant annex to the credit facility agreement. The companies are currently negotiating possible restructuring of that debt.

The situation discussed above has no direct effect on any other credit facility agreement to which any of the Polenergia Group companies are party; in particular, it does not trigger an event of default under any other credit facility agreement.

The Companies' control of the funds is restricted in favour of the Banks, in accordance with the provisions of the Credit Facilities Agreement.

Polenergia S.A. issued a surety for Amon's and Talia's liabilities under the Credit Facilities Agreement for up to approximately PLN 6.7m. The Management Board is uncertain about the enforceability of the surety, however, as no explicit decision was issued in that matter, it found it prudent to consider the Company potentially liable.

- b) Due to the impairment loss recognised in 2016 and the drop in prices of green certificates, as at June 30th 2017 the Mycielin project was in default on the Debt to Equity ratio, the Debt Service Coverage ratio, the Expected Debt Service Coverage ratio, and the Loan Life Coverage Ratio. Pursuant to the provisions of the credit facility agreement, as at the date of these financial statements such default did not trigger reclassification of the facility from non-current to current liabilities.

Due to the default on the Debt to Equity ratio as at the end of 2016, as reported by the Group in its earlier financial statements, the Group applied to the banks financing the Mycielin project for a waiver. As at June 30th 2017, the banks financing the Mycielin project made a statement in which they waived their right to declare failure to meet the said ratio an event of default under the credit facility agreement and to enforce any of their rights in such cases.

c) In addition, Biomasa Energetyczna Południe and Biomasa Energetyczna Wschód defaulted on the Debt Service Coverage Ratio due to high competition in the pellet market and persistently low sales prices. On June 30th 2017, the bank financing the Biomasa Energetyczna Południe project waived the Event of Default under the Credit Facility Agreement in connection with the failure to meet this ratio.

27. Liabilities

	Jun 30 2017	Dec 31 2016
- bank and other borrowings	289,988	296,255
- trade payables	109,563	156,172
- to related entities	817	949
- to other entities, including:	108,746	155,223
- investment commitments	1,278	434
- income tax payable	4	958
- other liabilities	128,340	219,571
- to the state budget	7,746	13,120
- prepaid deliveries	937	-
- other financial liabilities	330	323
- valuation of futures and forward contracts *)	52,788	85,584
- salaries and wages	240	1,391
- special accounts	159	45
- under settlement of long-term contracts **)	64,557	83,703
- other	1,582	35,405
Total current liabilities	527,895	672,956

*) For more information on the valuation of **futures and forward** contracts, see Note 21

**) For more information on the liabilities under settlement of long-term contracts, see Note 42.

Trade payables do not bear interest and are typically paid within 14 days.

Other liabilities do not bear interest.

	Jun 30 2017	Dec 31 2016
- under settlement of long-term contracts **)	9,241	29,881
- valuation of futures and forward contracts *)	6,191	5,718
- risk hedging	6,597	7,545
- investment commitments	1,500	1,500
- other financial liabilities	574	702
Total other non-current liabilities	24,103	45,346

28. Accruals and deferred income

	Jun 30 2017	Dec 31 2016
Non-current accruals and deferred income		
- deferred income - grants	57,383	58,883
Total non-current accruals and deferred income	57,383	58,883
Current accruals and deferred income		
	Jun 30 2017	Dec 31 2016
- future bonuses, salaries and wages	4,814	6,287
- services	3,080	3,092
- unused holiday entitlements	506	479
- deferred income - grants	3,976	4,076
- expenditure on property, plant and equipment	284	283
- other	1,528	1,032
Total current accruals and deferred income	14,188	15,249

The Group has received three grants. The first grant of PLN 5,900 thousand was given in 2005 as additional funding for the '22 MW Puck wind power plant' project. The power plant was launched at the end of 2006, and the grant amount recognised as deferred income is being written off over the power plant's useful life.

The second grant of PLN 40,000 thousand was given in 2010 as additional funding for the 'Łukaszów Wind Farm construction' project. As at June 30th 2017, the Group received PLN 39,887 thousand under the grant. The wind farm was launched at the end of 2011, and the grant amount recognised as deferred income is being written off over the wind farm's useful life.

The third grant of PLN 40,000 thousand was given in 2010 as additional funding for the 'Modlikowice Wind Farm construction' project. As at June 30th 2017, the Group received PLN 39,771 thousand under the grant. The wind farm was launched at the end of 2011, and the grant amount recognised as deferred income is being written off over the wind farm's useful life.

29. Contingent liabilities

29.1 Guarantees and sureties issued

As at June 30th 2017, the Group did not issue any external guarantees.

29.2 Litigation

a) The Company's subsidiaries Amon Sp. z o.o. and Talia Sp. z o.o. brought court action to declare invalid the termination notices issued by Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. under:

1) the agreement on sale of property rights incorporated in certificates of origin for electricity generated in a renewable energy source – the Łukaszów Wind Farm of December 23rd 2009, and the

agreement on sale of electricity generated in a renewable energy source – the Łukaszów Wind Farm of December 23rd 2009, in respect of Amon;

2) the agreement on sale of property rights Incorporated in certificates of origin for electricity generated in a renewable energy source – the Modlikowice Wind Farm of December 23rd 2009, and the agreement on sale of electricity generated in a renewable energy source – the Modlikowice Wind Farm of December 23rd 2009, in respect of Talia;

In addition, the company pursues a claim for damages in respect of the sale of green certificates obtained by both companies for part of the period covered by the claim for declaration of invalidity of termination notices, on market terms. In this regard, the claims of Amon Sp. z o.o. and Talia Sp. z o.o. may increase. The aforementioned case did not result in Amon or Talia being unable to sell the electricity and certificates of origin, because electricity can be sold to a last-resort supplier at a price determined by the President of the Energy Regulatory Office, and green certificates can be sold through the power exchange or otherwise to other parties. However, while the price of electricity sold to a last-resort supplier is slightly higher than the price set in contracts with Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. w likwidacji, the current market price of green certificates is significantly lower than the price paid by Polska Energia. Also, market prices may be volatile. As it is not possible to foresee future market prices, the consequences of the change of the customer for electricity and green certificates sold by Talia and Amon cannot be reliably predicted. The proceedings are pending.

b) Eolos Polska Sp. z o.o. filed for joint and several payment by the Company's subsidiaries, Certyfikaty Sp. z o.o. and Polenergia Obrót S.A., of contractual penalties and amounts due totalling PLN 20,222 thousand under alleged breach of contracts which expired on January 5th 2016. It should be noted that in the statement of claim the plaintiff indicated that its claim could be higher due to the fact that the claimed contractual penalties would increase in subsequent years. Accordingly, in March 2017 Eolos Polska Sp. z o.o. sent a payment notice to Certyfikaty Sp. z o.o. and Polenergia Obrót S.A., raising an additional claim for payment of PLN 7,672 thousand. The Company has information that Eolos Sp. z o.o. extended the claim filed to include the indicated amount requested. The subsidiaries denied the claim in its entirety. Moreover, Polenergia Obrót S.A. maintains that the allegation of Polenergia Obrót's joint responsibility for Certyfikaty Sp. z o.o.'s liabilities is groundless.

c) The Company's subsidiary, Polenergia Biomasa Energetyczna Północ Sp. z o.o., is seeking approximately PLN 40 thousand from one of its trading partners as a refund of advance payments. In this case, the Court of first instance issued a judgment favourable for the said company. Currently, the parties await a written statement of reasons, hence the defendant is likely to file an appeal. Moreover, the aforementioned subsidiary is seeking payment of receivables of approximately PLN 420 thousand. The other party has expressed an intention to settle the case. The company is waiting for a settlement offer from the defendant. The above amount is not reflected in the company's statement of financial position.

d) Due to the nature of its business which involves supplying electricity to end consumers, the Company's subsidiary Polenergia Dystrybucja Sp. z o.o. is enforcing claims against a number of customers in relation to sale and distribution of electricity, for a total amount of approximately PLN 400 thousand. The above amount is not reflected in the company's statement of financial position. Furthermore, Polenergia Dystrybucja Sp. z o.o. filed a claim against one of its electricity suppliers, demanding a refund of overpayments for delivered electricity. The amount of the claim is approximately PLN 550 thousand. The defendant recognised the claim, but also filed for a set-off of receivables for energy supplied in a different period. Polenergia Dystrybucja Sp. z o.o. regards the defendant's counterclaim as groundless and believes to have paid the supplier all amounts due from it for the energy supplied.

e) The Company's subsidiary Polenergia Obrót S.A. secured a writ of execution against one customer for the amount of PLN 5,000 thousand, with respect to which enforcement proceedings are pending. The above amount is not reflected in the company's statement of financial position.

f) Moreover, the Company's subsidiary Elektrownia Pólnoc Sp. z o.o. is in dispute with the other party to a preliminary property sale agreement, seeking to oblige that party to execute the final sale agreement. Elektrownia Pólnoc Sp. z o.o. also initiated proceedings against the same person for payment of a penalty for breach of contract. The amount in dispute is PLN 100 thousand. The case has been accepted for examination by the Supreme Court.

g) The Złotoryja County Head issued two decisions for Amon Sp. z o.o. and one decision for Talia Sp. z o.o. allowing them to exclude arable land which is to accommodate wind farms and access roads from agricultural production. The decisions also determined the amounts due for the exclusion of the arable land from agricultural production, totalling PLN 1,705 thousand to be paid by Amon Sp. z o.o. and PLN 831 thousand to be paid by Talia Sp. z o.o. Both Amon Sp. z o.o. and Talia Sp. z o.o. filed petitions for declaration of invalidity of the decisions along with requests to stay their enforcement with the Local Government Board of Appeals of Legnica. The Board declared the decisions invalid. Amon Sp. z o.o. and Talia Sp. z o.o. believe that the Złotoryja County Head has no right to apply for re-examination of the case. As the Local Government Board of Appeals of Legnica declared the decisions invalid, there are no grounds for charging the amounts for exclusion of the arable land from agricultural production, and the case may need to be re-considered based on its merits.

h) A subsidiary of the Company – Energopep Sp. z o.o. Sp. k. is engaged in a lawsuit for the payment of PLN 100 thousand brought against a member of a contractor's management board for a delay in filing for bankruptcy. The case has been resolved by the court of first instance in the company's favour, and the company expects the defendant to appeal against the judgment.

29.3 Tax settlements

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by administrative bodies, which are authorised to impose high penalties and sanctions. As the legal regulations regarding these issues in Poland are relatively new, they are often ambiguous and inconsistent. Differences in the interpretation of tax legislation are frequent, both within public administration bodies and between those bodies and businesses, leading to uncertainty and conflicts. Consequently, tax risk in Poland is substantially higher than in countries with more mature tax systems.

Tax settlements may be subject to inspection for a period of five years from the end of the calendar year in which the tax payment was made. Such inspections may result in additional tax liabilities for the Group companies. As at June 30th 2017, the Group did not identify any tax risk for which a provision should be recognised.

29.4 Capital expenditure

As at June 30th 2017, the Group planned to spend approximately PLN 50m on property, plant and equipment in 2017. The amount will be allocated mainly to an investment programme in the distribution segment and on project development, including in offshore and onshore wind power generation.

29.5 Contractual obligations

Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o., a subsidiary

On March 20th 1998, Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. entered into a long-term agreement with PGNiG S.A., under which it is obliged to order contractual gas volumes of no less than 180 mcm annually and no more than 210 mcm annually. In each contractual year, the company is

required to pay for the minimum annual gas volume, equal to 90% of the ordered annual gas volume. The agreement expires on December 24th 2019.

On March 21st 2008, the company entered into an agreement on sale of electricity with GET EnTra Sp. z o.o. Annex No. 10 of January 18th 2017 provides for electricity sales volume of no less than 375,000 MWh annually as of 2016, including no less than 335,000 MWh in the summer period. In accordance with Annex No. 10, the agreement term ends on December 31st 2019.

Under a heat sale agreement of March 25th 1998, the company agreed to supply heat to Ciech Sarzyna S.A. In the event of failure to supply the agreed heat volumes, the company is required to compensate for losses incurred and documented by the customer, up to USD 2m annually (the amount has been indexed to CPI since 1996). Under the agreement amended under Annex 10 of January 24th 2017, the company is obliged to supply and Ciech Sarzyna S.A. is obliged to collect 370,000 GJ of energy annually (Minimum Required Purchase Volume).

On January 24th 2017, the company and Ciech Sarzyna S.A. executed an agreement under which the company undertook to supply heat to Ciech Sarzyna S.A. in the period from June 4th 2020 to November 30th 2030, starting after the expiry of the agreement of March 25th 1998 referred to above. In the event of failure to supply the agreed heat volumes, the company is required to compensate for losses incurred and documented by the customer, up to USD 8m over the entire term of the agreement. The agreement does not provide for any Minimum Required Purchase Volume.

On January 24th 2017, the company and Ciech Sarzyna S.A. executed an agreement under which Ciech Sarzyna S.A. undertook to provide **local services** in the period from June 4th 2020 to November 30th 2030. The services covered by the agreement include supplies of water and steam condensate, collection of wastewater and access to a railway siding; the company uses these services in its operations connected with electricity and heat generation.

On October 30th 2013, the company renewed the heat supply agreement with Zakład Gospodarki Komunalnej Nowa Sarzyna Sp. z o.o. The agreement expires on June 3rd 2020. Under the agreement, in each contractual year the customer is obliged to collect and pay for, and the supplier is obliged to supply, at least 55,000 GJ of heat (Minimum Required Purchase Volume), with the proviso that the customer may change the Minimum Required Purchase Volume starting from the fourth contractual year. Additionally, the supplier (the Company) is not obliged to supply more than 120,000 GJ of heat (Maximum Required Supply Volume) in any contractual year.

30. Revenue

	For 6 months ended		For 3 months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
- revenue from sale and distribution of electricity	1,092,590	1,128,681	506,946	547,187
- revenue from certificates of origin	24,682	22,488	17,871	1,150
- revenue from carbon dioxide emission allowances	374	2,375	30	-
- revenue from sale of heat	11,014	14,264	4,488	5,496
- revenue from consulting and advisory services	1,539	2,008	924	1,134
- income from lease and operator services	1,059	434	585	416
- revenue from sale of merchandise	2,660	2,502	1,175	918
- revenue from sale of pellets	13,228	25,009	5,660	11,965
- rental income	93	906	30	893
- income from compensation for stranded costs and cost of gas	49,786	55,629	25,410	18,323
- net revenue from sale and distribution of gas	141,956	111,076	66,197	56,041
- other	3,532	1,122	3,255	466
Total revenue	1,342,513	1,366,494	632,571	643,989

Revenue from sale of electricity includes gains from revaluation of electricity sale derivatives.

31. Expenses, by nature of expense

	For 6 months ended		For 3 months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
- depreciation and amortisation expense	48,927	56,182	24,420	29,440
- raw materials and consumables used	96,803	94,183	45,854	42,681
- services	27,966	28,646	13,916	14,873
- taxes and charges	13,301	8,976	6,624	2,738
- salaries and wages	15,777	18,306	7,937	8,718
- social security and other benefits	2,586	2,767	1,361	1,289
- other operating expenses	1,633	1,818	835	939
Total expenses by nature	206,993	210,878	100,947	100,678
- cost of merchandise and materials sold (+)	1,107,551	1,094,441	520,955	542,060
- distribution costs (-)	(392)	(411)	(154)	(127)
- administrative expenses (-)	(16,132)	(19,469)	(8,130)	(11,263)
Total cost of sales	1,298,020	1,285,439	613,618	631,348

32. Other income

	For 6 months ended		For 3 months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
- reversal of impairment losses and write-downs, including:	41	814	33	345
- impairment losses on receivables	41	469	33	-
- inventory write-downs	-	345	-	345
- provisions reversed, including:	-	1,166	-	1,166
- provision for site restoration	-	1,166	-	1,166
- other, including:	6,602	3,040	4,878	1,787
- compensation and additional charges	368	14	9	2
- settlement of grants	1,649	2,140	830	1,070
- gain on disposal of non-financial non-current assets	459	623	407	546
- re-invoicing	6	-	6	-
- other	4,120	263	3,626	169
Total other income	6,643	5,020	4,911	3,298

The item 'other' includes PLN 2,236 thousand arising under the agreement with Vestas, which is described in detail in Note 15.

33. Other expenses

	For 6 months ended		For 3 months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
- impairment losses and write-downs, including:	228	55,672	111	55,233
- impairment losses on receivables	56	10,045	34	9,606
- impairment losses on property, plant and equipment	172	45,627	77	45,627
- other, including:	677	198	434	59
- penalties, fines, compensation	2	-	-	-
- assigned compensation	-	3	-	-
- other development costs	95	134	58	52
- loss on disposal of non-financial non-current assets	380	2	325	2
- other	200	59	51	5
Total other expenses	905	55,870	545	55,292

To comply with the Act on Wind Farm Projects (the "Act"), which came into force on July 15th 2016, the Group had to recognise an impairment loss on assets in the form of wind farm projects under development, i.e. wind farm construction projects with respect to which a building permit had not been obtained or building permit procedure had not been initiated. The provisions of the Act regulating the minimum distance between a wind farm and residential buildings make continued development of these projects impossible. Further, in connection with the Act, the Company recognised an impairment loss on the amount receivable from sale of a wind farm project (with the final instalment payable on obtaining the wind farm operation permit). The aggregate amount of these impairment losses of approximately PLN 55m relates to the Development and Implementation segment. The impairment losses were non-cash charges. The Group monitors the changing regulatory environment on an ongoing basis, including changes resulting from the amended Act on Renewable Energy Sources and from secondary legislation thereto, which has not yet been enacted, as well as the effect of those regulations on the Group's operations and its financial results. As at the date of these interim consolidated financial statements, given the lack of secondary legislation to the Act, it was not possible to comprehensively assess the effect of the new regulations on the Company and to determine whether it would be necessary to recognise further impairment losses.

34. Finance income

	For 6 months ended		For 3 months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
- income from interest on deposits and loans	3,498	2,286	1,600	1,191
- interest on finance leases	70	77	35	38
- foreign exchange losses, including:	1,401	55	(32)	50
- unrealised	1,312	43	(70)	51
- realised	89	12	38	(1)
- valuation of financial liabilities	1	17	(13)	1
- disposal of shares in a subsidiary	-	3,206	-	3,206
- other	30	28	29	6
Total finance income	5,000	5,669	1,619	4,492

On June 16th 2016, the parent finalised the sale of the Zakrzów project, i.e. of power generation assets comprising the Zakrzów CHP Plant and two SPVs. The project was purchased by DP System Sp. z o.o. of Łódź. Detailed data on the transaction:

Gain on sale of property, plant and equipment	729
Income from reversal of provision for site restoration	1,166
Impairment losses on property, plant and equipment related to the Zakrzów CHP Plant project	(1,082)
Income tax (at the 19% rate)	(154)
Gain on disposal of shares in SPVs	3,206
Income tax (at the 19% rate) *)	1,420
Total	5,285
Cash received from project sale	3,591

*) The positive effect of income tax is attributable to the fact that no deferred tax asset had been recognised in past years on account of impairment losses on shares.

35. Finance costs

	For 6 months ended		For 3 months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
- interest expense	28,970	27,081	14,209	14,382
- foreign exchange losses, including:	571	1,562	(149)	1,168
- unrealised	289	1,414	(88)	1,117
- realised	282	148	(61)	51
- fees and commissions	943	1,977	457	1,382
- valuation of financial liabilities *)	1,705	1,258	872	718
- other	84	292	53	158
Total finance costs	32,273	32,170	15,442	17,808

*) Related to bank borrowings measured at amortised cost.

36. Cash flows

Restricted cash	For 6 months ended	
	Jun 30 2017	Jun 30 2016
- cash for credit facility repayments	29,880	35,969
- cash for the settlement of compensation for stranded costs	48,887	75,485
- cash for long- and medium-term overhauls	3,310	4,297
- other restricted cash	115	3,667
Total	82,192	119,418

Explanation of differences between changes in certain items in the statement of financial position and changes in the statement of cash flows

Inventories:	For 6 months ended	
	Jun 30 2017	Jun 30 2016
- change in inventories in the statement of financial position	13,574	(4,907)
- recognition of inventories under non-current assets	644	-
- deconsolidation of sold subsidiary	-	(107)
Change in inventories in the statement of cash flows	14,218	(5,014)

Receivables:	For 6 months ended	
	Jun 30 2017	Jun 30 2016
- change in short-term and long-term receivables, net in the statement of financial position	36,188	93,887
- change in investment receivables	71	-
- deconsolidation of sold subsidiary	-	(1,710)
- change in financial receivables	36,080	(21,219)
Change in receivables in the statement of cash flows	72,339	70,958

Liabilities:	For 6 months ended	
	Jun 30 2017	Jun 30 2016
- change in liabilities, net of borrowings, in the statement of financial position	(159,083)	(50,101)
- change in finance lease liabilities	367	876
- change due to dividends payable	-	(22,722)
- change in investment commitments	30,373	4,362
- deconsolidation of sold subsidiary	-	1,441
- change in financial liabilities	976	1,230
Change in liabilities in the statement of cash flows	(127,367)	(64,914)

Accruals and deferrals:	For 6 months ended	
	Jun 30 2017	Jun 30 2016
- change in accruals and deferrals in the statement of financial position	(8,160)	(7,349)
- commissions on bank borrowings	(234)	(4,604)
- deconsolidation of sold subsidiary	-	54
- property, plant and equipment under construction, not invoiced	-	787
Change in accruals and deferrals in the statement of cash flows	(8,394)	(11,112)

37. Objectives and policies of financial risk management

Apart from derivatives, the key financial instruments used by the Group include credit facilities, cash, and short-term deposits, the primary purpose of which is to secure financial resources to finance the Group's operations. The Group also holds other financial instruments, such as trade payables and receivables arising in connection with its activities.

The Group enters into transactions involving derivative instruments, primarily forward contracts to hedge its currency and market price risks. The purpose of these transactions is to manage the currency risk and the risk of market prices (in particular in electricity trading) which arise in the course of the Group's operations and in connection with the sources of funding it uses.

The key risks connected with the Group's financial instruments are: interest rate risk, liquidity risk, currency risk, and credit risk. The Management Board verifies and establishes rules for managing each of these types of risk; the rules are briefly discussed below. The Group also monitors the risk of market prices with respect to the financial instruments it holds.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its non-current financial liabilities.

It is the Group's policy to manage its interest expense by using debt financing based on floating rates. To hedge interest payments under its borrowings, the Group uses financial derivatives.

The table below presents sensitivity of the Company's quarterly profit before tax (in connection with floating-rate liabilities) to reasonably possible movements in interest rates, all other factors being equal. The effect on the Group's equity is not presented.

	Increase/decrease (percentage points)	Effect on pre-tax profit/loss over three consecutive months (PLN '000)
Period ended Jun 30 2017		
1M WIBOR	1%	(2,141)
1M EURIBOR	1%	(67)
1M WIBOR	-1%	2,141
1M EURIBOR	-1%	67

	Increase/decrease (percentage points)	Effect on pre-tax profit/loss over three consecutive months (PLN '000)
Period ended Jun 30 2016		
1M WIBOR	1%	(2,227)
1M EURIBOR	1%	(86)
1M WIBOR	-1%	2,227
1M EURIBOR	-1%	86

Currency risk

The Group's currency risk involves primarily the risk of changes in the euro exchange rate with respect to its short currency position under bank deposits, investment commitments, and investment credit facilities. As at June 30th 2017, the position was valued at EUR 6.3m. It is not hedged against changes in currency exchange rates.

Except in the case of the above unhedged currency position, when negotiating the terms of hedging derivatives, the Group seeks to match those terms with the terms of the hedged item, thus ensuring the maximum effectiveness of hedging; for more detailed information, see Note 39.

The table below presents the sensitivity of the Group's profit/loss before tax (due to changes in the fair value of monetary assets and liabilities) to reasonably possible movements in the euro exchange rate, all other factors being equal.

	Exchange rate increase/decrease	Effect on profit/loss
June 30 2017 - EUR	+ 0.01 PLN/EUR	(63)
	- 0.01 PLN/EUR	63
June 30 2016 - EUR	+ 0.01 PLN/EUR	(77)
	- 0.01 PLN/EUR	77

In the period ended June 30th 2017, the Group incurred finance costs of PLN 289 thousand under unrealised foreign exchange losses.

In the period June 30th–September 30th 2017, movements in the PLN/EUR exchange rate may significantly affect the amount of unrealised exchange gains/losses. The result on unrealised exchange differences as at September 30th 2017 will mainly depend on the difference between the PLN/EUR exchange rates on June 30th 2017 and September 30th 2017, with the appreciation/depreciation of the Polish zloty against the euro having a positive/negative effect on the net profit of ca. PLN 63 thousand for each PLN 0.01 of the difference relative to the exchange rate as at June 30th 2017 (PLN 4.2265 /EUR).

Credit risk

The Group executes transactions only with reputable companies enjoying sound credit standing. Each customer who wishes to trade on credit terms is subject to credit verification procedures. Moreover, thanks to ongoing monitoring of receivable balances, the Group's exposure to the risk of unrecoverable receivables is insignificant.

With respect to the Group's other financial assets, such as cash and cash equivalents, financial assets available for sale and certain derivative instruments, credit risk is related to the counterparty's inability to pay, and the maximum exposure to this risk is equal to the carrying amount of such instruments.

As the Group's investment projects rely to a large extent on external financing, there is significant debt concentration at the Group. The contracted credit facilities provide for a number of financial covenants which have to be met by individual projects.

Given the current market environment, possible consequences of the Act on Wind Farm Projects and situation prevailing on the market of green certificates, there is a risk that the Group may default on the covenants with respect to certain project.

The Group monitors the debt levels and compliance with covenants at individual companies, remaining in contact with the financing institutions.

Cash at banks is held with well-rated banks. There is no concentration of credit risk, because the Group deals with several reputable banks.

Trade receivables are owed mainly by customers having good credit ratings with whom the Group maintains continued business relations.

Liquidity risk

The Group monitors the risk of its funds being insufficient to pay liabilities as they fall due using periodic liquidity planning. This planning takes into consideration maturities of investments and financial assets (e.g. receivables, other financial assets) and forecast cash flows from operating activities.

The Group aims to balance financing continuity and flexibility by using different financing sources, including account overdrafts, credit facilities, finance lease agreements and lease agreements with a purchase option.

The table below presents the Group's financial liabilities by maturity as at June 30th 2017 and December 31st 2016, based on undiscounted contractual payments.

Jun 30 2017	up to 3 months	from 3 to 12 months	from 1 year to 5 years	over 5 years	Total
Interest-bearing borrowings	48,365	349,014	467,298	571,065	1,435,742
Other liabilities	127,308	1,033	14,861	-	143,202
Trade payables	109,563	-	-	-	109,563

Jun 31 2016	up to 3 months	from 3 to 12 months	from 1 year to 5 years	over 5 years	Total
Interest-bearing borrowings	50,206	361,658	467,558	618,887	1,498,309
Other liabilities	226,290	1,284	7,462	-	235,036
Trade payables	156,168	-	4	-	156,172

38. Financial instruments

Fair values of individual financial instrument classes

The table below compares carrying amounts and fair values of all of the Group's financial instruments, by classes and categories of assets and liabilities.

	Category (IAS 39)	Carrying amount		Fair value	
		Jun 30 2017	Dec 31 2016	Jun 30 2017	Dec 31 2016
Financial assets					
Futures and forward contracts	Level 2	72,149	108,143	72,149	108,143
Financial liabilities					
Bank borrowings	Level 2	1,055,637	1,116,653	1,055,637	1,116,653
SWAPs	Level 2	6,598	7,545	6,598	7,545
Futures and forward contracts	Level 2	58,506	91,302	58,506	91,302

Level 2: The fair value is measured based on other inputs that are observable for the asset or liability, either directly or indirectly. As similar contracts are traded in an active market, the prices reflect results of actual transactions in similar derivative instruments. The fair value of borrowings is determined using their amortised cost, i.e. an analysis of future cash flows discounted using the effective interest rate.

The fair values of short-term and long-term receivables and liabilities approximate their carrying amounts.

Interest rate risk

The table below presents the carrying amounts of the Group's financial instruments exposed to the interest rate risk, by maturity. Their classification into individual years reflects the dates when the borrowings mature.

Jun 30 2017

INTEREST RATE RISK							
	<1rok	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Floating-rate interest							
PLN bank borrowings	283,118	78,490	51,639	83,965	55,382	476,662	1,029,256
EUR bank borrowings	6,870	7,457	7,799	4,255	-	-	26,381
Fixed-rate interest							
Cash assets	319,167	-	-	-	-	-	319,167
Finance leases	295	310	325	341	358	1,370	2,999

Dec 31 2016

INTEREST RATE RISK							
	<1rok	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Floating-rate interest							
PLN bank borrowings	289,707	84,117	60,782	82,523	53,876	514,886	1,085,891
EUR bank borrowings	6,548	7,636	7,985	8,352	241	-	30,762
Fixed-rate interest							
Cash assets	380,862	-	-	-	-	-	380,862
Finance leases	308	303	318	333	350	1,550	3,162

Interest rates for financial instruments earning interest at floating rates are updated in periods of less than one year.

39. Hedging

Cash-flow hedges

As at June 30th 2017, the Group held the following hedging instruments for cash flow hedge accounting purp

Maturity date of the hedging instrument	Value of the hedge (PLN '000)	Interest rate hedged	Instrument
Apr 20 2019	67,804.00	4.95%	IRS
Jun 15 2021	141,693.00	3.07%	IRS
209,497.00			

As at the reporting date, the fair value of the hedge was PLN 6,597 thousand and was disclosed in non-current liabilities.

The purpose of the hedging transactions is to mitigate the effect of interest rate movements on the value of future highly probable loan repayments.

Hedge accounting seeks to eliminate the risk of an accounting mismatch upon recognition of the hedging instrument's and the hedged item's effect on the entity's net profit or loss. The result of the hedging transaction will be taken to the statement of profit or loss on exercise of the hedge.

As at June 30th 2017, the Group recognised PLN 726 thousand in other comprehensive income being a component of equity, on account of the effective portion of the hedging instrument's fair value.

40. Capital management

The primary objective behind the Group's capital management is to maintain good credit rating and safe capital ratios, in order to support the Group's operations and build shareholder value.

The Group manages its capital structure and modifies it in response to changes in the economic environment. To maintain or adjust its capital structure, the Group may introduce changes regarding dividend distribution, return capital to the shareholders, or issue new shares. In the six months to June 30th 2017 and financial year ended December 31st 2016, there were no changes in the capital structure management objectives, policies and processes.

The Group monitors its capital position using the leverage ratio, calculated as the ratio of net debt to the sum of total equity and net debt. The Group's net debt includes interest-bearing borrowings less cash and cash equivalents.

	Jun 30 2017	Dec 31 2016
Interest-bearing borrowings	1,055,637	1,116,653
Less cash and cash equivalents	(319,167)	(380,862)
Net debt	736,470	735,791
Equity	1,269,347	1,267,426
Total equity	1,269,347	1,267,426
Equity and net debt	2,005,817	2,003,217
Leverage ratio	37%	37%

The leverage ratio complies with the Group's financing policy.

41. Significant related-party transactions

As at June 30th 2017, GEO Kletnia Sp. z o.o was an associated entity.

Transactions with related parties in the period of 6 months ended June 30th 2017:

Jun 30 2017	Revenue	Costs	Receivables	Liabilities
Kulczyk Investments	-	296	-	78
Kulczyk Holding	-	234	-	-
Krucza Inwestycje KREH 1 Sp. z o.o. S.K.	57	1,329	-	3
Chmielna Inwestycje KREH2 Sp. z o.o. S.K.A.	602	-	140	-
Euro Invest Sp. z o.o.	113	-	31	-
Polenergia Holding Sarl	166	-	22	-
Polenergia Biogaz Sp. z o.o.	50	-	16	-
Polskie Biogazownie S.A.	20	-	120	-
Polskie Biogazownie Energy Zalesie Sp. z o.o.	-	448	-	-
Ciech Sarzyna S.A.	10,667	1,030	2,810	199
Autostrada Eksploatacja S.A.	1,017	-	137	-
Ramsden Sp. z o.o.	129	-	-	-
Polenergia International Sarl	550	-	551	-
Polenergia Usługi Sp. z o.o.	55	-	34	-
Grupa PEP-Obrót 2 Sp. z o.o.	789	-	785	-
Total	14,215	3,337	4,646	280

For information on transactions with members of the parent's Management Board and Supervisory Board, see Notes **Błąd! Nie można odnaleźć źródła odwołania.** and 45.

42. Compensation for stranded costs and cost of gas

Compensation for stranded costs

Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o, a subsidiary, calculates stranded costs for the period April 2008–May 2020 ("adjustment period") using formulas specified in Art. 30 and Art. 31 of the LTC Termination Act. The estimate is based on the following items:

- revised net carrying amount of power generating property, plant and equipment as at January 1st 2007,
- depreciation of power generating property, plant and equipment for the purposes of corporate income tax in the period January 1st 2007 – March 31st 2008,
- operating profit or loss in the adjustment period, calculated based on realised and forecast revenue from sale of electricity and operating expenses related to sales of electricity, adjusted for depreciation and amortisation for the purposes of corporate income tax,
- net carrying amount of power generating property, plant and equipment after the end of the adjustment period.

The maximum amount of stranded costs calculated as described above is allocated to individual years (including 2017) according to the Company's allocation method (based on operating profit or loss for a given year).

Due to the length of the period covered by the calculations, the estimated amounts may change; the amounts disclosed as at the end of the reporting period have been estimated based on the Company's best knowledge and data available on that date.

	For 6 months ended Jun 30 2017
compensation for stranded costs, entered in the books	30,172

In the first half of 2017, the Company did not receive compensation payments for stranded costs from Zarządca Rozliczeń S.A.

Compensation for cost of gas

The amount of compensation for the cost of gas is estimated as the product of gross electricity generated by the Company in the period using gas fuel covered by the 'minimum take' clause, the difference between the Company's average cost of gas and the average cost of coal in coal-fired centrally dispatched generating units, and the adjustment coefficient referred to in the LTC Termination Act.

	For 6 months ended Jun 30 2017
compensation for cost of gas, entered in the books	19,614

In the first half of 2017, the Company received the following payments as compensation for cost of gas from Zarządca Rozliczeń S.A.:

	For 6 months ended Jun 30 2017
Prepayment for Q1 2017	10,000
Total	10,000

On July 27th 2017, the President of the Energy Regulatory Office issued decision No. DRR.WAR.721.7.2017.AD, whereby the annual adjustment of compensation for cost of gas in 2016 was set at PLN 1,463 thousand. ENS received the decision on July 31st 2017.

According to the decision, compensation for cost of gas in 2016 amounted to PLN 40,663 thousand, prepayments of compensation for cost of gas in 2016 received by ENS amounted to PLN 39,200 thousand, and consequently the annual adjustment of compensation for cost of gas in 2016 amounted to PLN 1,463 thousand. The adjustment is due from Zarządca Rozliczeń S.A. by September 30th 2017.

In 2016, ENS estimated and reported income from compensation for cost of gas in 2016 at PLN 27,072 thousand. The difference in compensation for cost of gas in 2016 arising under the President of URE's decision and ENS's estimate amounts to PLN 13,591 thousand and will be recognised in July 2017. The increase in the annual adjustment to compensation for cost of gas is primarily attributable to a higher Wg ratio (average annual cost of domestically-produced natural gas / average annual cost of natural gas supplied from abroad) (expected = 0.52, actual = 0.716) and lower cost of coal (expected = PLN 88.50/MWh, actual = PLN 82.27/MWh).

43. Workforce

The Group's workforce in FTEs as at June 30th 2017 and December 31st 2016:

	Jun 30 2017	Jun 30 2016
Parent's Management Board	3	3
Parent's employees*)	52	56
Subsidiaries' employees	168	169
Total headcount	223	228

*) including 5 employees on parental leaves

44. Information on the total amount of remuneration and awards (in cash or in kind) paid or payable to members of the Management and Supervisory Boards of the parent

In 2017 and 2016, remuneration of members of the Management Board of the parent and subsidiaries, as well as of the Supervisory Board was as follows:

	Jun 30 2017	Dec 31 2016
Jacek Głowacki	1,203	2,126
Bartłomiej Dujczyński	721	656
Michał Michalski	469	114
Zbigniew Prokopowicz	-	3,987
Anna Kwarciańska	-	1,745
Michał Kozłowski	-	1,834
Total	2,393	10,462

	Jun 30 2017	Dec 31 2016
Tomasz Mikołajczak	27	54
Mariusz Nowak	18	36
Łukasz Rędziniak	18	36
Dawid Jakubowicz	18	36
Dominik Libicki	18	28
Orest Nazaruk	18	36
Arkadiusz Jastrzębski	18	36
Brian Bode	18	28
Dagmara Gorzelana-Królikowska	18	28
Total	171	318

Certain Management Board members are party to a mutual agreement on termination of employment within the next 3–12 months. If a Management Board member being a party to such agreement resigns, the Company is required to pay a severance benefit equal to 100% of the remuneration received by such Management Board member over the last 12 months. Following their resignation as members of the Management Board in 2016, Mr Zbigniew Prokopowicz, Ms Anna Kwarciańska and Mr Michał Kozłowski received appropriate severance benefits.

45. Transactions with members of the Group's Management and Supervisory Boards, their spouses, siblings, ascendants, descendants, or other closely related persons

In the six months to June 30th 2017, no transactions were entered into with members of the Management and Supervisory Boards, their spouses, siblings, ascendants, descendants, or other closely related parties.

46. Events after the reporting period

On August 1st 2017, two hearings were held before the Supreme Administrative Court connected with the cassation complaints of Dariusz Mantaj (II OSK 3042/15) and Andrzej Bator (II OSK 2943/15) against the judgments of the Provincial Administrative Court in Poznań of August 27th 2015 (II SA/Po 188/15 and II SA/Po 189/15) concerning environmental decisions issued on January 24th 2014 by the Mayor of Wysoka Town and Municipality for:

1) "Bądecz I WF" project consisting in the construction of a wind farm (up to 11 turbines) with internal auxiliary infrastructure in the municipality of Wysoka, in the area of Bądecz, Gmurowo, Nowa Rudna, Rudna, Sędziniec and Stare;

2) "Bądecz II WF" project consisting in the construction of a wind farm (up to 3 turbines) with internal auxiliary infrastructure in the municipality of Wysoka, in the area of Tłukomy and Czajcze;

Having examined Andrzej Bator's appeal against the decision of the Mayor of Wysoka Town and Municipality referred to in point 1 and Dariusz Mantaj's appeal against the decision of the Mayor of Wysoka Town and Municipality referred to in point 2, on September 23rd 2014 the Local Government Board of Appeals of Piła upheld the contested decisions. Andrzej Bator and Dariusz Mantaj filed a complaint against the decision of the Local Government Board of Appeals of Piła to the Provincial Administrative Court in Poznań, which dismissed those complaints on August 27th 2015. Andrzej Bator and Dariusz Mantaj lodged cassation appeals against the judgments of the Provincial Administrative Court in Poznań; the appeals were examined by the Supreme Administrative Court on August 1st 2017.

The Supreme Administrative Court examined the appeals on their merits, citing Art. 188 of the Law on Proceedings Before Administrative Courts, and reversed the judgments of the Provincial Administrative Court in Poznań dismissing the complaints of Andrzej Bator and Dariusz Mantaj, as well as the above-mentioned decisions of the Local Government Board of Appeals of Piła and environmental decisions issued by the Mayor of Wysoka Town and Municipality.

Since the environmental decision for the above-mentioned projects, both of which are implemented by the Company's subsidiary, Polenergia - Farma Wiatrowa Bądecz Sp. z o.o., was set aside, the final building permits for the projects may be challenged. The Company will take measures consistent with laws in force to uphold the aforementioned building permits. However, if these efforts fail, the projects may not be able to join the auction. The expenditure on the project has amounted to approximately PLN 15m.